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MEASURING IMPROVEMENTS IN THE U.S. EXPORT ASSISTANCE CENTER NETWORK

HEARING

BEFORE THE

SUBCOMMITTEE ON
TAX, FINANCE, AND EXPORTS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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MEASURING IMPROVEMENTS IN THE U.S. EXPORT ASSISTANCE CENTER NETWORK

THURSDAY, SEPTEMBER 9, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:00 p.m., in room 311, Cannon House Office Building, Hon. Donald A. Manzullo [chairman of the subcommittee] presiding.

Chairman MANZULLO. Good afternoon.

I was playing musical chairs up here. Obviously, somebody who occupied this chair before me wasn't vertically challenged, and I was sitting closer to the ground than I wanted to.

The Subcommittee will come to order. Today we will continue our evaluation of the USEAC or U.S. Export Assistance Center network. Steve Chabot, a representative from Ohio and I are the only members who were part of the Subcommittee in 1996 when we held our last oversight hearing on the program.

We are here today because USEACs are unique in the Federal Government. They represent an innovative effort to attempt to consolidate, improve and stretch the various export promotion programs spread throughout 19 Federal agencies. That is not an easy task. From where the U.S. Government was in the early 1990s, the auditing reports for us today confirm that there have been significant improvements in the delivery of export promotion programs to those interested in international trade.

The major problem outlined by GAO appears to be a disunited effort to help small firms that are not ready to export but show potential. A minority of USEACs have aggressive outreach programs, while the rest refer these small businesses to other resources mostly in the private sector. But there is little follow-up at the USEACs to see if these companies have graduated and are now prepared to export.

As a Member who has held numerous trade forums to encourage more companies to export, I know the frustration many trade specialists at the USEACs feel about the lack of response to the invitation for help. This is not about outreach or marketing. It is about small companies that already know about USEACs but do not receive the appropriate help because they are not "export ready".

The GAO reports the SBA's E–TAP program is one of the tools that holds promise for assisting firms that are not ready to export. I am also familiar with several private sector alternatives that may be of assistance also. Our mutual goal should be that no small

business that contacts a USEAC for export help is turned away because the company is not export ready. That apparently was the conclusion of the GAO study.

We have a record trade deficit mainly because of our recent anemic export performance. Small business accounts for nearly 93 percent of exporting manufacturers but accounts for only 30 percent of the value of U.S. exports. Clearly, we have a lot of work to do.

I look forward to the testimony of our witnesses. I yield for an opening statement by the ranking minority member, Mrs. McCarthy of New York.

Mrs. MCCARTHY. Thank you, Mr. Chairman.

I would also like to thank our panel of witnesses for taking time out of their busy schedules to testify before this Subcommittee.

While small businesses are looking to global markets to expand and remain competitive, export assistance centers have shown they have a potential to help small business increase their exports. This hub and spoke network, which is centered around USEACs throughout the country, is linked with 141 overseas posts in 76 countries.

Exports account for 25 percent of the total U.S. Economy. Furthermore, an increase of $1 billion in exports translates to 22,800 new jobs. By creating one export assistance network, U.S. Businesses no longer encounter a fragmented and confusing system when looking to Federal assistance for counseling. Their ability to assist small businesses interested in exporting their goods and services translates into more jobs and a healthier economy.

As you are aware, U.S. Government export programs have come under close scrutiny of the Congress. In response to questions raised by Senator Smith regarding this issue, the GAO produced a report examining the nature of USEACs with federal and nonfederal agencies, as well as marketing initiatives.

Although the report sufficiently answers most of the questions raised by Senator Smith, it also raises some inconclusive points that need clarification such as, how agencies are dealing with overlapping of services. Though USEACs have shown the potential to help small businesses increase their exports, recommendations made by GAO, as well as continued congressional oversight, is still needed to improve their services, especially the firms that have never exported their goods.

I thank the chairman for recognizing the importance of this issue and look forward to the testimony of our witnesses.

Chairman MANZULLO. Thank you very much.

Our first witness is Ben Nelson. Ben or Benjamin?

Mr. NELSON. Benjamin, but Ben is fine.

Chairman MANZULLO. Okay.

Mr. Nelson joined the GAO's Detroit regional office in 1974 after participating in the General Motors management development program. In 1983, he transferred to Washington, joining the newly established Office of Quality Assurance and then to National Security and International Affairs Division in 1985 to help establish the Division's quality review operation. You have quite a background. Mr. Nelson graduated with a BA in Business Administration from Albany State College and his graduate degree is from Johns Hopkins University, School of Advanced Studies in International Studies.

He also completed work on international trade and competitiveness issues at Georgetown University. Excellent qualifications.

Mr. Nelson, we look forward to your testimony on behalf of the GAO investigation.

Mr. NELSON. Thank you.

Chairman MANZULLO. I don't think investigation is a fair term.

Mr. NELSON. I am sorry.

Chairman MANZULLO. I said GAO investigation. I think GAO review or audit is a better term.

Mr. NELSON. Review.

Chairman MANZULLO. Review would be more appropriate.

Mr. NELSON. More appropriate, yes.

Chairman MANZULLO. Thank you.

STATEMENT OF BENJAMIN F. NELSON, DIRECTOR, INTERNATIONAL RELATIONS AND TRADE ISSUES, U.S. GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Mr. NELSON. Mr. Chairman and members of the Subcommittee, I am pleased to be here today to discuss the activities of the U.S. Export Assistance Centers, so-called USEACs. As you well know, small businesses offer great potential for export growth. However, they are also likely to seek export assistance, particularly those firms that have never exported. Various Federal agencies and public and private organizations provide a range of export assistance activities, from giving export counseling to supplying export finance.

Research by GAO and others in the late 1980s and early 1990s found that export assistance at the Federal level was fragmented among 10 different agencies. In response, USEACs were created to strengthen the delivery of export promotion programs by serving as one-stop shops that could provide information on all export promotion activities available to U.S. Firms seeking assistance. Today, there are 19 USEACs.

We have followed the development of the USEAC concept and have reported on early implementation issues. My testimony today will focus on our most recently issued report entitled: Export Promotion: U.S. Export Assistance Centers Seek to Improve Services. Specifically, I will discuss our findings related to, one, USEAC agencies' efforts to improve coordination among Federal agencies and nonFederal export service providers; and, two, the challenges the USEAC agencies face in their efforts to better meet the needs of the business community, particularly firms that export services and firms that are not yet ready to export.

In conducting this latest review, our work included visits to six of the 19 USEACs and meetings with members of the export community at each location. These locations include Atlanta, Baltimore, New York, San Jose, Seattle, and Portland.

With respect to coordination, we found that the agencies participating in the USEACs are making joint calls on perspective clients and sharing information on clients and services where appropriate. The USEACs have also pursued partnerships with nonFederal export service providers, including State and local government, profit and nonprofit organizations.

In many cases, the USEAC agencies have co-located their staff in the same office suite of a building as nonFederal providers. In fact, for fiscal year 1998, nearly 20 percent of the export actions reported by USEAC trade specialists mentioned that at least one partner had participated in assisting a firm and in exporting a product or service.

While coordination among the various entities has improved, USEAC faced significant challenges in helping firms that export services. At a time when opportunities for service sector exports are growing, Commerce's export promotion services are often unavailable or inappropriate for firms that export services, as they were largely designed for firms that export goods.

Certain USEACs have initiated creative approaches to addressing this issue. For example, one USEAC helped to stage a series of international video conferences through which U.S. Architects could gain market intelligence and meet potential clients. USEACs are also helping design and education sector firms to form consortiums to which they can jointly pursue export business.

Some USEACs have also used a special partnership program developed by the Small Business Administration to assist in projects that are not yet ready to export. Under this program, USEACs organize Federal and nonFederal export service providers into consortiums that provide firms that are not ready to export with comprehensive export training tailored to the firm's needs.

USEACs then offer intensive follow-up counseling to those firms and those firms that successfully complete the SBA program. Some firms participating in the program have become customers of USEAC export promotion and finance services and ultimately exportors.

Mr. Chairman, this concludes my opening remarks. I would be happy to answer questions you or other members of the Subcommittee may have.

Chairman MANZULLO. Thank you very much.

[Mr. Nelson's statement may be found in the appendix.]

Chairman MANZULLO. You will notice that the chairman removed his coat. And if any of the witnesses feels more comfortable in doing so, because of this oppressive humidity, just join in.

Our next witness is Johnnie Frazier——

Mr. FRAZIER. Frazier.

Chairman MANZULLO [continuing]. Frazier, thank you—Inspector General, U.S. Department of Commerce.

Mr. Frazier was sworn in as the fourth Inspector General of the U.S. Department of Commerce by Secretary Daley on July 20th, 1999. He had served as the Department's Acting Inspector General since January of 1998. As IG, Mr. Frazier manages the Office of Inspector General, which is charged with conducting and supervising audits, inspections, and investigations of the Department's programs and operations. He is the Department's senior official in charge of promoting economy, efficiency and effectiveness and preventing and detecting fraud, waste and mismanagement.

Mr. Frazier also served as Assistant Inspector General from 1994 to 1998 and as Deputy Assistant Inspector General from 1984 to 1994 in the Office of Inspections and Program Evaluations.

I would state that what Mr. Frazier has done here is not an investigation, but it is an audit for determining efficiency. Is that correct?

Mr. FRAZIER. Yes, audits, inspections, and evaluations, all three of them.

Chairman MANZULLO. Okay. Please proceed with your testimony, Mr. Frazier.

STATEMENT OF JOHNNIE E. FRAZIER, INSPECTOR GENERAL, DEPARTMENT OF COMMERCE, WASHINGTON, DC

Mr. FRAZIER. Thank you. Thank you, Mr. Chairman.

Mr. Chairman and members of the Committee, I am pleased to appear before you today to discuss some of the Office of Inspector General's work and recent observations related to the U.S. Export Assistance Centers.

I appeared before this Subcommittee just over 3 years ago to discuss the results of our early assessment of the development and roll-out of the USEACs. I concluded that appearance by stating that although there were clearly problems and challenges, we were optimistic about the USEAC's potential to better address the export promotion and trade finance needs of U.S. exporters.

If I were to fast forward to the end of my statement here today, you would see that I essentially have the same conclusion, that there are indeed problems to be addressed, but I believe that the USEACs are demonstrating their ability and potential to better meet the needs of U.S. exporters.

Several key factors cause my optimism, the foremost being that the USEACs have come a long way in demonstrating how Federal agencies can and should work together to better provide export assistance to U.S. businesses. And, secondly, the centers, while not perfect, represent a major improvement over the fragmented export promotion and finance assistance previously provided to U.S. exporters.

Long before the establishment of USEACs, my office recognized and highlighted the need for improved coordination of the Federal Government's export promotion efforts.

Recognizing the USEAC program's potential for success or failure and the resulting impact on small- and medium-sized firms who look to the Federal Government for export assistance, we completed an early assessment of the development and roll-out of the USEACs.

Calling your attention to the map here on my left, I would highlight that since that early assessment, we have monitored the changing status of the USEAC program through the various audits, evaluations, inspections, and visits, including several centers that I personally visited. As you might expect, we have found that most of the centers have some unique strengths and their own weaknesses. Each center also appears to have its own special opportunities for success, as well as its own special challenges.

Let me quickly share with you in the form of a report card—and the report card is intended to encourage discussion here—a few of our general observations about the USEAC program.

Federal Partnerships. Federal partnerships are increasingly working in a cooperative fashion. This is the good news. This is a

solid B-plus here. My observations here are more about attitude, of quality. That is relatively intangible and difficult to quantify, yet can make a big difference. More often than not, we are finding that the collocation of export promotion and trade finance partners in the USEACs does in fact foster closer working ties and strengthen information exchanges. Clearly, when this happens, the result is improved export marketing and export finance assistance.

USEAC Staffing. While SBA has at least one representative in every USEAC, Ex-Im has staff physically located in only four USEACs. Ex-Im officials emphasized that, although they are not present in every USEAC, they attempt to visit the remaining USEAC sites during their routine visits to the major cities in their region. They also rely with varying degrees of success on the 36 centers that have Ex-Im Bank city-state partners in their vicinities who serve as their authorized agents. A B grade here.

USEAC Performance Measures. The USEACs clearly need a better system for identifying, measuring and reporting programmatic accomplishments. In our 1996 review, we recommended that the USEACs have performance measures and criteria for assessing and encouraging the success of the USEACs as a single entity and not only as the sum of the individual parts of the participants. Although some officials are now attempting to address this matter, there is clearly more work to be done here.

State and Local and Private Partnerships. Again, this is good news. The USEAC network is fostering stronger partner relationships with State, local and other trade associations. A solid B-plus here is given to highlight our overwhelmingly positive observation, that there is increased partnering between Federal and State and local trade promotion organizations.

Coordination with the U.S. and Foreign Commercial Service's Overseas Offices. Coordination between the USEACs and the U.S. and FCS overseas offices must be better. One of the unique aspects of the U.S. and Foreign Commercial Service is its worldwide network of domestic and foreign offices. Because cooperation and interaction between them has been spotty, we see the U.S. and FCS's efforts in this area as only average, at best.

USEAC Marketing. What is the USEAC program? This is a question that is frequently asked. Our grade here reflects the opinion of many representatives of some of the Federal, State and private trade organization that we have spoken with who believe that the USEACs must be more effective in getting out the message of who they are, where they are, what they do, and what products and services they have to offer.

In closing, if I had to give the overall USEAC program a grade today, it would be a solid B. U.S. exporters are clearly being better served through the USEAC program with improved coordination and cooperation between the Federal agencies and the various public and private organizations in the field that are involved in promoting and financing U.S. exports.

Thank you. This completes my statement, and I will be glad to answer any questions.

Chairman MANZULLO. Thank you.

[Mr. Frazier's statement may be found in the appendix.]

Chairman MANZULLO. Our next witness is Awilda Marquez, Assistant Secretary and Director General of the U.S. and Foreign Commercial Service of the Department of Commerce. And we look forward to your testimony I am not even going to go through the list of credentials here, because we will take up a lot of time, except to say that our witness has a thorough understanding of international trade and administration.

And with that introduction, Ms. Marquez, please.

STATEMENT OF AWILDA R. MARQUEZ, ASSISTANT SECRETARY AND DIRECTOR GENERAL, THE U.S. AND FOREIGN COMMERCIAL SERVICE, DEPARTMENT OF COMMERCE, WASHINGTON, DC

Ms. MARQUEZ. Good afternoon, Mr. Chairman, and thank you Representatives McCarthy, Gonzalez and Napolitano and members of the Subcommittee for providing me with the opportunity to speak to you about one of the true success stories in government today, the U.S. Export Assistance Centers. I would ask, of course, that my complete statement be made a part of the official record.

You have asked if there is a measured improvement in the USEACs since their creation in around 1993. I am pleased to report that the Export Assistance Centers have become a catalyst for small- and medium-sized companies seeking to expand their markets overseas and an invaluable resource for the tens of thousands of companies that use the USEACs.

Almost 6 years have passed since we opened four pilot USEACs in Baltimore, Miami, Chicago and Long Beach. By fostering strong partnerships with Federal, State and local trade promotion organizations, by incorporating technology and strategically placing our resources where they could serve our clients most effectively, we have created an integrated national export assistance delivery network.

And I do want to thank you, Mr. Manzullo, for sponsoring H.R. 1993 ITA's Reauthorization Act that would support the continuance of the USEACs.

I have offered here a chart to talk about some of the measured improvements of the USEACs and have provided copies for you to look at.

Today, the Export Assistance Network is comprised of over 350 Commercial Service employees at 105 Export Assistance Centers providing export assistance to American companies nationwide. Each offers one-on-one counseling to businesses, particularly small and medium-sized companies with export potential. But with a growing scarcity of resources and a greater demand on services, working through partnerships at the point of service delivery is the most effective way to help the American exporter in today's climate of increased global competition.

The trade finance counseling provided by SBA and Ex-Im Bank professionals at several Export Assistance Centers complements the export marketing counseling offered by the Commercial Service. The original vision of providing one-stop shop for American exporters has become a reality. Each agency in this one-stop shop offers its own expertise. Of course, this is not a merger of identities

but a close coordination of efforts to make it easy for customers to get to the solution to their export-related problems.

In addition to our Federal partners, the Commercial Service partners with State and local public/private organizations to again leverage resources and expand the range and the depth of the services that we can provide.

While the USEACs have matured to deal effectively with clients, and we are proud of this accomplishment, we do not rest on our laurels. The operation is not yet perfect, and we are working on improvements.

We are moving toward integrated planning with our USEAC partners. Every USEAC already engages in joint planning activities among the partners to coordinate specific local trade events, trade mission recruitment, World Trade Week activities, et cetera. In addition to this, the Commercial Service would like to see integrated planning so that one partner's goals are incorporated into the goals of all partners and that all successes are shared collectively.

In addition, USEAC partners, as has been noted, already actively engage in joint client calls. Every Commercial Service annual performance plan for our staff has one element that is dedicated to working with partners. We are working to develop joint performance measures, including joint counseling, good management business processes and customer service within the USEACs.

The Commercial Service has taken the lead within the USEAC network to provide partners with training on our products and services. We have provided week-long Trade Specialist training courses in which our partners have participated. We also arrange for USEAC training for all USEAC partners, encompassing topics such as export counseling, Federal resources for international business, using trade finance effectively, et cetera.

In an effort to incorporating partner and client feedback into our Managers' and Trade Specialists' evaluations, the Commercial Service will soon be adopting a 360-degree review process; that is, that 360-degree feedback will be incorporated into evaluations allow superiors, subordinates, peers, clients and partners to provide input to help evaluate our individual Trade Specialists' performance.

We also use Teams, as you know. Our Teams initiative has greatly improved the effectiveness of the Commercial Service's global network and the USEACs. In 5 years, the Commercial Service Teams have matured to become a solid and effective global virtual structure that coordinates activities across the Commercial Service units, other ITA units and among USEAC and local partners to bolster Teams' international and industry expertise.

With the focus on innovation, the Teams have increased outreach to new clients, developed enhanced matchmaking programs and used new technology such as web casting and video conferencing to educate clients and put them in touch virtually with buyers overseas.

The goal and main measure of the Commercial Service is to increase the number of American SME exporters. We are aggressively working to expand and diversify our client base. Our rural Export Initiative reaches small and medium-sized companies who

are export-ready but have not yet had full access to international trade services because they are located in remote areas or in business centers that are away from major metropolitan areas and lack international trade infrastructure.

Rural companies are exporting more than ever, but they share common characteristics. They lack access to trade services, such as counseling, banking and freight forwarding experts. They are often not exposed to international cultures and do not often have the benefit of industry clusters in their areas. We can find and do find rural companies with the capacities to exceed and help them enter the international marketplace.

In addition to rural companies, we are also working to help minority-owned businesses export more, and we have launched a Global Diversity Initiative to help those export-ready minority-owned businesses take advantage of international opportunities. Working with partners or partners in the USEACs and other partners outside of the USEACs, we provide comprehensive counseling and training over 6 months with a trade mission opportunity at the end for minority-owned businesses to expand their international reach.

We are one of the few agencies that provide direct service to the business community, and this unique relationship necessitates that we, the Commercial Service, maintain credible, flexible, business-friendly and business-relevant services to keep up with the dynamic technological pace of business.

We are also using technology very aggressively to help businesses, especially the rural, the new-to-export and the minority-owned companies, to help them reduce the costs of investigating markets. We are using video conferencing very aggressively. We are using push technology to get trade information and research directly to their computers.

We set up a virtual trade show where companies can save on travel costs and market investigation costs by going to our virtual trade hall and developing a virtual trade booth in our virtual trade show.

We are also using web casting very aggressively, developing videos on market opportunities in Europe, in China, NAFTA countries, among others so far. This is available on the web through our website global speed.com so companies can get information and research directly through our website.

Innovation is also our current priority, modernizing what we do. We are well deployed. We are well managed. We are well operated. Now we also need to be modern thinking and fast thinking and fleet footed. So we are using technology and innovating, developing new tools and services to help companies export. We will be ending our pilots next April with our 20th year anniversary. We will be rolling out a whole new set of products and services for companies that will meet their needs in the new millennium.

I thank you for the time to talk about what the Commercial Service, the USEACs have done in partnership to help companies. We are proud of what we have done. We know we need to continue to better ourselves. And I am certainly able and willing to answer any questions you might have. Thank you.

Chairman MANZULLO. Thank you for your testimony. We will enter your complete statement and all statements of the other witnesses into the record.

[Ms. Marquez' statement may be found in the appendix.]

Chairman MANZULLO. Our next witness is Joseph Sachs, who is the Director of the U.S. Export Assistance Center located in Long Beach, California. Mr. Sachs has been director there since it opened in 1993. The Long Beach USEAC is one of the four original USEACs and brings together staff from the SBA, Department of Commerce, Ex-Im Bank and the Agency for International Development.

Prior to heading the USEAC in Long Beach, Joe spent over 22 years with the SBA working in both in SBA's Washington headquarters and the LA district office. He began his career with the SBA in 1971 as a Federal Management intern.

Joe, we look forward to your testimony.

STATEMENT OF JOSEPH S. SACHS, DIRECTOR, U.S. EXPORT ASSISTANCE CENTER, LONG BEACH, CALIFORNIA, REPRESENTING THE SMALL BUSINESS ADMINISTRATION

Mr. SACHS. Thank you, sir.

Good afternoon, Mr. Chairman. Thank you for inviting me here today to speak about the U.S. Export Assistance Centers, the recent GAO report on the USEACs and particularly our newest export development program, the Export Trade Assistance Partnership, the E–TAP program. My name is Joseph Sachs, and I have been the director of USEAC in Long Beach since the USEAC policy began there in January of 1994.

I would like to extend personal regards to Representative Napolitano whose office we have worked with on a regular basis for at least 4 years now.

The General Accounting Office report mentioned E–TAP as a "promising new program." we certainly agree. That is why we are attempting to expand the program on a national basis.

The concept is very simple: Target small businesses who are ready to export but have not done any actual exporting. And, in specific instances, we might even allow a company that has done one or two exports to participate, teach them how to do it, hold their hands while they do, follow up with a trade show or a trade event overseas, and then support them with the financing that is necessary when the overseas orders begin to come in. We refer to this as the SBA export continuum—education, technical assistance, risk management and financing. But the key to E–TAP's success is the commitment of SBA and its partners to continuously monitor throughout the entire process.

Typically, programs for new-to-export companies offer a series of seminars to help educate small firms on the various aspects of exporting. Most of these programs either fall short of success or, more commonly, cannot measure their success due to little, if any, follow-up after the company completes the seminar. The E–TAP program is different in that it ensures mentoring of the E–TAP participants to ensure that as they go through the process they become export ready.

The success of this program is in its simplicity. Resource partners offer information and training to their respective areas of expertise. Another difference E–TAP offers is that, working as a group, the resource partners are more effective by being able to offer seamless delivery and mentoring services, something too time-consuming to offer separately.

We began this program about 5 years ago in Seattle as an SBA program with the district office in Seattle and a local Small Business Development Company participating. Building on that success, we introduced the program into the USEACs as they were opened. We found that the USEACs were ideal locations for the program, because the co-located Federal partners were already on board and most USEACs are located where there are SBDCs capable of offering high-quality counseling services and new—and specifically, too, new-to-export companies.

Our participation and location in the USEACs also afforded us regular access to other partners well suited for the program. This includes SBA's service core of retired executives, freight forwarders, international attorneys, insurance brokers, the World Trade Center Association, international trade associations and the District Export Councils of the Department of Commerce.

Although each of these groups came to the program with their own distinct goals and agendas, each has found the program beneficial. The success of each E–TAP graduating company is a success for which each service provider can justifiably claim credit.

Despite limited funding for E–TAP, SBA has been working to expand the program nationwide. This year active E–TAP programs are operating in almost half of the 19 USEACs, representing over 230 companies, getting export support as participants in the E–TAP program.

SBA's participation as a partner at all 19 USEACs has afforded SBA an improved environment to deliver our trade finance services. Volume and the export working capital program has grown from 79 loans worth $28 million in 1994 to 412 loans worth $159 million in 1998, a growth in loan portfolios size of over 450 percent. This represents an estimated $350 million supported by this program in export sales volume.

The export working capital program is also one of the best performing finance programs at SBA. The overall charge-off rate during this period is less than 1 percent. We are continuing to improve the program and are developing new, more efficient finance products to meet the evolving needs of the small business community.

Because small businesses continue to be the fastest growing sector for U.S. Exports, SBA must and will continue to adapt to meet small business needs.

Attached to my written testimony is a more detailed description of the E–TAP program and a success story which I think you would enjoy reading. A woman-owned business, a graduate of the E–TAP program in Long Beach, was counseled by the Department of Commerce and by SBA, got an SBA loan, which they completely paid off, and is back now looking for a second loan.

I thank you for the opportunity to testify here today, and I would be happy to respond to any questions you may have.

Chairman MANZULLO. Thank you very much.

[Mr. Sachs' statement may be found in the appendix.]

Chairman MANZULLO. We welcome Congressman Gonzalez and Congresswoman Napolitano. Good to have you here this afternoon.

Let me ask a couple of questions. I want to refer first to the GAO report.

First of all, I want to thank you all for your statements. You will notice that even though we have two auditing investigative agencies here, the issue is about coordination and outreach. It certainly doesn't go beyond that and I don't want anybody to get the opinion that because the GAO and the OIG here that it is anything other than trying to make USEAC more efficient than what it is. That certainly is our goal with all Federal programs, and I want to thank you all here for your efforts on it.

In the GAO report, it talks about USEACs struggling with assisting enterprises that are not yet ready to export. It then makes reference to the program developed by the SBA, which is E–TAP. Yet the E–TAP program mentions that it helps small businesses that are ready to export. What do we have here? Is E–TAP working with companies that are ready to export or just inquiring about whether or not they should even get involved in exports?

Maybe, Mr. Sachs, that would be your question.

Mr. SACHS. Okay. I think that what has happened is the E–TAP program has evolved over time; and I think because of the mission of the USEACs to focus our attention on ready-to-export companies, at least to date, I think that is what has happened with E–TAP. We have now identified companies who are successful domestically. We are trying to introduce them into the export marketplace, and so those are the companies that we actively recruit. But I wouldn't say there is any specific prohibition against another company coming into the program.

Chairman MANZULLO. I am not talking about prohibition. I am talking about outreach. Did you have a response to that, Mr. Nelson?

Mr. NELSON. Go ahead with your question. Maybe——

Chairman MANZULLO. I can appreciate what E–TAP is doing, because that is obviously filling a hole that GAO picked up on and said that it has fitted in very nicely. But my question here is that the fifth witness chair, if filled by anybody, would be by a person who is a small manufacturer that either did not receive assistance at the USEAC or, two, didn't know about it, which is the biggest problem; or, three, went to USEAC and was, according to GAO report, referred to an outside agency, ostensibly a private agency.

Does anybody want to comment on that?

Mr. SACHS. If I may.

Chairman MANZULLO. Sure.

Mr. SACHS. We have agreements with all kinds of different organizations. There are approximately 138 different entities in southern California involved in export counseling. Organizations like SCORE, the Small Business Development Centers, the Ports of Long Beach and Los Angeles. Again, I am speaking about my particular USEAC.

Chairman MANZULLO. Sure.

Mr. SACHS. The World Trade Center Associations, and others mentioned earlier, have been invited and have come into our

USEAC to counsel people who are not "export ready." and, in many instances, those people have received counseling from those entities—which happen to be in the same building, by the way, that is a big plus—that has resulted in them becoming export ready.

Chairman MANZULLO. Are those feeder groups, Mr. Sachs?

Mr. SACHS. That is correct. And they are right there in our office with us. We do not turn anyone away.

Chairman MANZULLO. I wasn't suggesting that.

I know we have experienced this problem in our own office. We have a large manufacturing base. We brought in Counsels General from different countries to talk about exporting possibilities. And we send out a thousand letters to different businesses and you get a 1 or 2 percent response. Yet you end up with a C-minus.

Could somebody remove the paper covering the report card chart so we can see all right at the bottom where it says USEAC marketing?

Would you want to comment on that, Ms. Marquez?

Ms. MARQUEZ. Yes. Let us see. And I guess I will talk about also what is export ready. Because——

Chairman MANZULLO. If you could move closer to the mike, I would appreciate it.

Ms. MARQUEZ. Yes. Right.

Export ready we envision is a company that has a CEO that is committed to wanting to export, that has a viable business, that has financial statements, viabilities, some couple of years in practice as a business. Those that don't even reach that level who are so young that they may not survive exporting are the ones that are often referred to the SBDCs and others for basic business counseling and basic business strength and development.

At that point when you have a company with a CEO that is committed with a couple of years in business and they are actually a viable company, that is export ready. Now, most companies we know may be export ready, but they are not exporting. They don't think about it. They don't know about it. They don't appreciate the opportunity.

Chairman MANZULLO. That is a different group, right.

Ms. MARQUEZ. That is most of the companies. That is—our problem is that fewer than 5 percent of U.S. Companies are exporting. You know, we pull our hair out every day to figure out how can we get them to think about the incredible opportunities that exist overseas. Ninety-six percent of the world's market is overseas. They are clamoring for our companies in markets overseas. I have been to Brazil, to Chile, to Africa, to Europe. They are clamoring for U.S. Companies, but U.S. Companies aren't there.

Because the American economy is so strong, many companies don't feel the need or the desire to venture out overseas. Others don't have—others are afraid of or don't want to deal with other cultures and other languages. So it is our task to try to promote the opportunities that are overseas and then to make it clear how easy it can be to export and that we are available to help them. That is our basic marketing.

Our offices, of course, conduct hundreds and hundreds of seminars every year across the country on all sorts of products from

basic "do you want to export" to "do you want to export to China," which is for the strong of will and the very strong of spirit.

And we issued press releases. We worked with partners. But we can't——

Chairman MANZULLO. Okay. I am going to wind up my questions here. Where it talks about marketing campaign in the document that was just removed, it says, in order to produce an effective national marketing strategy campaign, additional resources are needed. That is not going to be forthcoming.

Ms. MARQUEZ. Right.

Chairman MANZULLO. I would like our office to get something from your office, within 1 or 2 months, just an outline of how you are going to reach these people without additional resources.

Ms. MARQUEZ. That is our challenge. That is our challenge. We spend the day providing counseling to businesses, and we offer the seminars. We issue the press releases. We have performance measures about expanding the client base, so our trade specialists have the motivation to go out and get new clients.

Chairman MANZULLO. I understand that. I guess the point I am trying to make is that you may not be able to rise above a C-minus level. Because when our congressional office tries to reach out to companies to get them involved in exports, it is very, very difficult to get a half decent response. Because you get a letter saying I am from the government, I am here to help you, and most small——

Ms. MARQUEZ. It is true.

Chairman MANZULLO [continuing]. Businesses will run the opposite direction. I am really open for anything innovative, because I am sure you have the same frustration. We have done press releases. We have sent individual letters. We have done a lot of telephone contact, knowing companies are involved in manufacturing, knowing that they have a product that they may be able to sell overseas, and yet we can't bring them into the fold exporting.

So don't feel bad about it. We are experiencing the same problem as you, and we look forward to any type of suggestion to fill that.

Ms. MARQUEZ. We wrack our brains, and we are—we have the rural export initiative that is targeting—so targeting is one good way—targeting resources to at least get certain sectors out. Rural exporters, minority exports are teams that have industry sector specializations focused on certain industry sectors and use databases of companies in those industries to target mailings for those. So we are trying that. We are using technology, as I said. When you use the web, the web casting is a great way to go.

Chairman MANZULLO. Keep it up, somewhere along the line the hard work will pay off. Thank you.

Mrs. McCarthy.

Mrs. MCCARTHY. Thank you, Mr. Chairman.

It is always interesting to see when a program has started, which is actually only a few years ago, and then to read the testimony and see how far it has actually gone. As with anything, you have to improve, always.

My question is to Mr. Sachs. It is my understanding that there is the potential to compete for capital financing as we always—we are always competing around here for money, too—between the SBA and the Ex-Im bank. How is the SBA and the Ex-Im bank

working together to avoid the overlapping of services and harmonize their programs?

Mr. SACHS. Harmonization agreement was part of the original concept of the USEAC, and basically we use the SBA's legislative authority for ceilings on its loans, which is $750,000. And what happens is, if it is $750,000 or less and it is an export-ready company, it comes to SBA; and if it is above that threshold, it goes to Ex-Im bank. Since we are all in Long Beach together, it is just a question of walking the client down the hall.

Now in our territory, in southern California, this has worked out pretty well. But Ex-Im bank has a delegated lender program, and many of those lenders have been participants in that program long before the establishment of the USEACs. And so, therefore, Ex-Im still allows those lenders to make smaller loans.

I don't see us as competitors. I see us as partners. And because of that working relationship, I think we have been very successful. We have done a lot of loans in our USEAC.

Mrs. MCCARTHY. Thank you.

Chairman MANZULLO. Mr. Gonzalez.

Mr. GONZALEZ. The question is to Mr. Sachs, and it is kind of just a practical one. Let us say that I am a resident of Long Beach and I want to get into the import business, how would I know about you?

Mr. SACHS. That is a good question.

Mr. GONZALEZ. In the export business.

Mr. SACHS. I notice the rating we received with respect to marketing our programs—there are approximately 20 of us on a regular basis in our USEAC, and we have a huge territory to cover. For SBA I cover four States. The Department of Commerce is scattered all throughout that same territory basically, and Ex-Im bank's people are responsible for 12 States. So a lot of us are on the road all the time doing the best we can to promote the programs.

But we don't have a budget specifically targeted at marketing, and we rely on each of the agencies providing us with literature and appropriate information that we can pass out at seminars and workshops. I have spent a lot of time speaking on the media, radio, television and even in the papers in the LA area, and every time I do one of those appearances, we do generate between 10 and 25 calls. And so I think we are doing the best job we can under the circumstances.

Mr. GONZALEZ. I am from San Antonio, so if I was a small business person, and there is a lot of export business right now developing in San Antonio for all the reasons, the first thing I would do is—the city would have a department on international trade that might be able to assist me. There may be the private sector free trade alliance. We have an organization. We have an international center, and we even have some development in Kelly Air Force Base as we redeveloped that.

But we also have all the Chambers of Commerce, all of these groups that I am just—throwing them out for examples. Do you all have consistent contact with these individuals so that if I have contacted any of them—and for a lot of them it is just common sense on where to go would they be able to tell me about your services?

Mr. SACHS. Absolutely. I mentioned earlier there are about 138 different entities in southern California. I included in that the Chambers of Commerce. Even Chambers of Commerce for specific countries are part of that.

We have made contact with anyone and everyone that we have felt would be able to help impact what we are trying to do for American businesses. And many of them may not be regular participants at the USEAC physically, but they are out there promoting our programs. We provide them with the literature, the forms, the information about who we are and what we do. And we always appear at seminars and workshops that those organizations put on. So I do think we have the benefit of those organizations as partners in what we are trying to accomplish.

Mr. GONZALEZ. Yes, ma'am.

Ms. MARQUEZ. We partner very, very closely with all of those organizations in the Commercial Service as well, our partners in the USEAC. We have MOUs with them, in order to complement each others' services. We try not to duplicate, so often a local Chamber of Commerce provides one certain kind of service but not the kind of service that we might provide, and so it is a very complementary relationship.

We are always trying to fill in the gap with all of those partners, and this happens across the country. You will often ask those partners do they know about the USEACs being there, and they do. And as a matter of fact, if you really—the only global network that exists is the Commercial Services, is 140 offices overseas.

None of those offices are going to have that source of original primary research on market information, potential trade contacts, the market climate, the investment climate. So having that global network around the world is an added value that no one offers to the small business exporters at an affordable price.

And in San Antonio we work with the Free Trade Alliance, with the Chambers and others and, of course, now have recently hired our new person for our office there, because it had been vacant for several months.

Mr. SACHS. If I can just mention——

Mr. GONZALEZ. Yes, sir.

Mr. SACHS. All of my comments in answering your question were as the USEAC director, as opposed to SBA, and it is absolutely correct that all of the participating agencies and many of our partners are together trying to accomplish the same task.

Mr. GONZALEZ. Because James Harmon was in San Antonio about 3 weeks ago and speaking to the Chambers and going out to Kelly Air Force Base and the international center and a big space out there on the former Air Force base soon to be—is going to be dedicated to the export business where we are going to have all sorts of individuals coming in there, and President Harmon at that point indicated this would be a good place to have some sort of presence, as far as the Export Import Bank. Of course, I guess I will be in touch with your new person in exploring all the possibilities.

Thank you very much.

Chairman MANZULLO. Mrs. Napolitano.

Ms. NAPOLITANO. Thank you, Mr. Chairman.

I have a lot of questions, but I think I will just direct myself to Mr. Sachs, if anybody can come on board.

Part of my problem has been, and you well know that in California I had to take my Chambers and business people over to the one-stop shop and nobody had even heard, and I was only 20 minutes away. And this was several years ago. And that was not to say that you were doing your job, but it was your personnel at the time was better used in other areas, I would imagine.

Long Beach is such a big area, and the Port requires so much assistance. So I have, as you well know, embarked on trade conferences. Well, that is one area where—the possibility of expanding the different agencies and what they do and how you are working together to disseminate that information to businesses who are either interested in exporting or who are exporting want to expand their market.

And that is what we have found out. It isn't just through the Chambers but rather going out into the community and asking people—here are people who represent these agencies. Come and talk to them if you are interested. And certainly you have a lot of loop-de-loos, but, in the end, you get a lot of people who are extremely ready and able, but they don't know where to go. So those are some of the things we are doing in our area.

But one of the things that comes to mind as I am hearing you testify is who your partners are, what is the one-stop shop doing or any of your agencies doing to communicate with the State Office of trade and commerce? Lon Hatamiya has long been wanting to work since he got appointed to be able to assist in being able to provide information to the businesses that they deal with, whether it is the trade missions, whether it is information or being partners in the one-stop, to be able to further—you know.

Mr. SACHS. As I mentioned earlier, we are in the World Trade Center building, which is a superb location.

Ms. NAPOLITANO. I know where you were.

Mr. SACHS. The State of California's Export Promotion Office and the State of California's Export Finance Office (who we do co-guarantees with to double the size of the loan) are all located in the same building. And we are constantly interacting with them. In fact, I don't think we do——

Ms. NAPOLITANO. Do you have a MOU with the State?

Mr. SACHS. I don't know if there is a written MOU, but they have been working very closely with us since the very beginning.

Ms. NAPOLITANO. Okay. One of the things that we found out during the trade hearings that we held was the ability to bring in the trade representatives from the different countries, where our State representatives were helping business. When they come to the State, then we wanted them to do briefings or debriefings, if you will, workshops, for business.

Mr. SACHS. We have always been there with them.

Ms. NAPOLITANO. But we never hear about them. So how can we interact if we don't know what is going on? And, unfortunately, that marketing—you may have a small budget, but maybe on your—I am assuming you are on the Internet, on the Net and you can post that information so we then can tell our Chambers or our businesses, look there, that is where you will find the info. I have

no problem putting it in my mailers to my businesses to say this is where you should look for that information.

Ms. MARQUEZ. May I add a couple of things?

Ms. NAPOLITANO. Certainly.

Ms. MARQUEZ. We do have a MOU with the State of California. In fact, we worked with the State of California and Lon Hatamiya's organization to start Bay Trade, for example, and LA Trade. So we are in a very close working relationship with them on a number of activities. And, of course, the information on whether it be trade opportunities, whether it is where the office closest to you has information available on the Internet, and, indeed, even direct market research and soon the Commercial Service is developing a new website that will be transactional, where a business can come on and order research on-line and pay for it on-line and have it delivered automatically to them to make it as easy as possible for them.

All of that market research will be available, much of it free, and then when you want to get customized for that company's product in a particular market that requires customized research, they will be paying a small fee for it.

Ms. NAPOLITANO. Is this true for all of the States?

Ms. MARQUEZ. All States. All of our sites are on the Net, and if you hit our website you can get access to all of our U.S. offices and all the international offices and all of their staff and all of their schedules of events. Every office has posted all of the schedules of the seminars or the special activities with partners or alone that are scheduled for that office for the year. So all of that is posted on the website.

Ms. NAPOLITANO. Then the other question would be whether or not you are working at all with the education institutions to be able to help those that are working in the area of business and trade. Sometimes they do it together, sometimes they do international separate, but I know the community colleges have an extensive—they have—I don't know if it is 12 now centers that deal strictly with international training for small business.

To me that would be an ideal way to be able to market what you are doing and be able to disseminate the information through not only a class but also in their brochures to be able to give information to the general business public.

Ms. MARQUEZ. Yes. And in the various seminars that we have, in the E–TAP program that is conducted and the Global Diversity Initiative program that is conducted, we bring in other partners, including university experts, to talk about significant products.

Ms. NAPOLITANO. Internet and the community colleges, are they specifically doing that?

Ms. MARQUEZ. Community colleges——

Mr. SACHS. There are three CITDs in our general area.

Ms. NAPOLITANO. CITDs?

Mr. SACHS. Centers for international trade, funded by the community college, chancellor's office, and they are all an integral part of everything that we do, so they do know about our organizations; and on many occasions we have been out speaking jointly with them through some particular audience.

Ms. NAPOLITANO. Okay. Because we did a conference with Ed Net at Long Beach State specifically on international trade, and we

brought some of the agencies in to talk to them. And their perspective is deal with us so that we can then disseminate the information. We would be glad to help you do that.

But I don't know whether anybody is doing any outreach to them to be able to include them, so they can get that information out to the——

Chairman MANZULLO. Would you yield for a question?

Ms. NAPOLITANO. Certainly.

Chairman MANZULLO. When you had that seminar, did you make a mailing to area manufacturers and businesses that you thought would be interested in attending that seminar?

Ms. NAPOLITANO. Our international trade is our fifth one already, so we have established a long line of mailing. Not only that, but utilities mail for me. The people that they know that are traded individuals, companies as well as the Chambers and utilities, includes gas, water, electric and the Chambers, and then we also have ties in with international groups that mail to their international groups.

Chairman MANZULLO. What kind of response do you have?

Ms. NAPOLITANO. I was laughing when you said 2 percent. We must mail out 40,000, and we probably get maybe 300, 400 people. But those are the ones who are really interested in doing the trades.

Chairman MANZULLO. But I think that really goes to the problems in marketing. I am sorry, I didn't mean to interrupt.

Ms. NAPOLITANO. No. But then you keep reaching new folks. New people come in, and they learn, and the word is starting to get out, and then they are able to communicate with the people that went to the conference. And they are able to share information about whether you can get the financing and all.

Chairman MANZULLO. One of the problems is the number of pieces of literature a small business person gets in the mail. I was raised in small business, in the grocery store and the restaurant business. Even in a nonpolitical year, how many pieces of literature does a small business person get? How do we actually get the small business person to open the letter? When I go through my mail, if it is not first class, I pitch it.

Ms. NAPOLITANO. That is true.

Chairman MANZULLO. Carolyn is nodding her head up here, too. If it has a first class stamp on it, then I will open it up. They are all nodding, also. Because I am looking at this C-minus over here, and that is why I am saying that I don't know if you can go above the C minus. Because the big problem that we have in this country is that there is a need for the small manufacturers to export, but how do you get them? How do you get them into making that one phone call to the Chamber in Mr. Sachs' area so they can make the link to the USEAC? How do you do that, Grace?

Ms. NAPOLITANO. It takes the word of mouth. It takes the people who are interested and know who has a product or a service that is saleable, that is exportable. Then to do the outreach, whether it is the Chamber member, whether it is a member of the community or the business community that understands that. And we have done all of that. What helps the most is the Chamber themselves. When they send out their notices through their blast fax, they can

send out 500 in one whack and be able to attract attention to what specific program they are offering that they can tap into. There are many different ways.

But you are right. And I have approached business people, why don't you come to a seminar? I am sorry, I have payroll on that day. I mean, it is just—I am told excuses. But many of them are kicking themselves, because people they know started working, have been—gone to branch out and all of a sudden they are saying I could have been there.

So this is a word of mouth. That we know. But if we refer them, we want to be sure they are going to get the service and they are not turned off. That is another problem sometimes. Maybe the end of year is a little tired or maybe they just do not communicate well because the person does not express themselves adequately in the English language so they sometimes have a little language problem.

But those people are just as adequate. In California, we have got such potential, and we are still trying, pulling them in, trying to get them to——

Chairman MANZULLO. Would you yield further?

Ms. NAPOLITANO. Please.

Chairman MANZULLO. One of the things that we have done on our website through the congressional office, we put a link on trade to the ITA. And, of course, the ITA has more links. That is one of the things that Members of Congress can do. My office gets about 13,000 hits a month on my Web page. Most of them are for visitors' information from Washington. And I don't know if we have been able to quantify the number of hits where people will actually hit the trade on it.

Ms. NAPOLITANO. No, we are too busy.

Chairman MANZULLO. That is about it. But there is a need, and it is something to think about on how to get the initial interest of the small business person.

I have been looking at some different software, and I think the SBA uses some software where there is a self-evaluation that the small businessperson goes through to even determine if they want to get involved in exporting. Most small businesspeople are terrified because they don't want to be paid in vodka or diamonds or something else. They want to be able to get the cash out of it. How do you overcome the fear factor, which I think is what separates our small manufacturers from exporting? Anybody?

Ms. NAPOLITANO. Would you yield for a second?

Chairman MANZULLO. I am sorry.

Ms. NAPOLITANO. I just wanted to suggest that maybe all the agencies that deal in trade produce a video, an educational video, for business. Very simple, but using businesses that have had success in being able to work with them. It has worked great for some of my other entities; and I would hope this would address the problem that you are talking about that people could see an individual, that real person who has succeeded.

Ms. MARQUEZ. It is available, and I would invite you to look on the Web at globalspeak.com. That is one word, "globalspeak," and on there we have a running video: "talk to the Experts on Exporting." And these are members of the District Export Councils that

you may know. These are companies. These are companies, heads of companies. When you are an exporter, what can I say, you become an expert in the problem. Not academic or government. These are companies that talk about different aspects of exporting. That certainly is available on the Internet now as we speak. It is a stream-lined constantly as part of that webcasting that I was talking to you about that is available.

Ms. NAPOLITANO. Is it possible that this Committee could get copies of that so that we could get it and have it passed on cable or public access? It is worth a shot.

Ms. MARQUEZ. Yes, we can certainly get copies of that videotape to you. And then this issue of reaching companies and how to encourage them to export, that is what our counseling is about. Once we get someone in who is interested, is trying to allay their fears or at least to help them think through what are the appropriate markets for them. You don't encourage them to go to Brazil right away. You start with Canada, a nice English-speaking, close-by market and then you graduate to how to advise them on where to go, where their product is most appropriately exported.

The easing into exporting is what our Trade Specialists can do to counseling those companies first. Of course, we have to get them in the door and through the partnering with the various chambers of commerce.

I spoke to the Vice President of the U.S. Chamber of Commerce. He has polled his own organization of thousands—how many do they have—7, 10, 13,000 company members and even of his own membership of the U.S. Chamber. He has a minuscule percentage that was interested in their international trade Subcommittee of the U.S. Chamber. So we are not alone in our struggle.

But it is a conundrum, and this is why Secretary of Commerce William Daley had begun his Trade Education Initiative some months ago to talk about the value and importance of trade to communities across the country, and we will continue this to the Midwest and the Southwest leading up to WTO in Seattle in December.

Chairman MANZULLO. Is there anything afoot on any reorganization in Commerce that would change the hub and spoke system now of the Export Assistance Centers being the spoke and the USEACs being the hub? Is there anything in the air on that?

Ms. MARQUEZ. We certainly have looked at the GAO study, and we are always looking at where the appropriate places are to have our offices, the USEACs. We are working to strengthen them.

Chairman MANZULLO. Allow them to keep their semiautonomy from Washington?

Ms. MARQUEZ. The spokes or the hubs?

Chairman MANZULLO. I guess the hub would be the USEACs and then the spokes would be, for example, the assistance center in Rockford, Illinois.

Ms. MARQUEZ. Yes.

Chairman MANZULLO. There is no move afoot to change that strategy?

Ms. MARQUEZ. Well, we are always reviewing the operations of our offices for their performance and their effectiveness for the investment of the Federal dollars. And those that are producing and that are working well with the customers and the markets are

there. They are going to stay as long as we have funding to support them. We are always looking to become more effective. The USEACs is a young——

Chairman MANZULLO. You left a huge hole there. I guess what I am trying to impress upon you is the fact that the regional assistance centers such as the one we have in Rockford, are critical. If there is any move to centralize everything back in Washington this Congress is going to raise hell from the rafters.

Ms. MARQUEZ. That is not how we would operate. It would never occur to us to think about this. In fact, we are always trying to decentralize our services and our support service. Washington is not the place that people come to do exporting and trade. It is in the communities. That is where we need to be, is where the businesses are. This is part of our operation. It is part of our credo, and it is part of our values. Those offices are going to stay out there or that is it. Nothing is going to be coming back to Washington. That wouldn't make sense for any company, and that is not what we believe in. So certainly not under my watch will we—are we thinking about that.

Chairman MANZULLO. I ran into a person who is involved in exporting, but it is just a minor element of his business. He is a small manufacturer. I visited over 200 manufacturers in the 16th District of Illinois. We have somewhere between 1,500 and 1,700 manufacturers in the 16th District. We are not even sure of the exact number because they spring up overnight, and sometimes they will grow eight, tenfold within a year because of the ingenuity of small businesses.

He said, Don, I would like to get involved in more exports. And I said, well, we have an Export Assistance Center in Rockford. Get a hold of James Meid, who is one of the finest officers in the country.

And his question was just unbelievable. He said, what does the Department of Commerce have to do with exporting? I would consider this man to be a sophisticated businessperson. And I gave him Mied's number, and I am sure he followed up on it.

But the question was so basic that you have to ask what is it about our approach corporately to the small businesspeople that have made them really shy away from getting involved in exports? We are all in this together. Because I want my constituents, obviously, to experience international growth, and you want the program into which you have all poured your hearts and souls to be effective.

If you don't have an answer to that question, don't feel bad, because I have been groping with that for about 7 years myself. I guess that is the question we have to answer, isn't it? And once we are able to answer that question, then maybe we will be able to do some other things. But I just want to thank you all.

Mr. Chabot, did you have any questions you wanted to ask?

Mr. CHABOT. Well, if this has been addressed already, I apologize.

Chairman MANZULLO. Go ahead, please.

Mr. CHABOT. You may have already addressed it, but it is my understanding that there are about 19 Federal agencies now that are involved in delivering export promotion and trade finance assist-

ance and those types of things. And let me play devil's advocate here but not too much the devil's advocate, because it is pretty close to what I believe.

One can make a pretty strong argument that the government should not be involved in this to the degree that we are, that we ought to have the private sector, that we ought to have chambers of commerce and trade associations and the businesses that are directly benefiting that should pay for this and should organize it because it is in their best interest to do so.

Whenever the government does anything, we don't do it nearly as efficiently as the private sector would because we become too bureaucratic. And it is my belief on a whole lot of levels, not just this. I don't think the Federal Government ought to be paying for art, for example, in the National Endowment for the Arts, National Endowment for the Humanities and all of these things. And so I think folks should do that privately and that sort of thing. So that is basically my philosophy here.

Convince me otherwise that if you all—no offense or anything, but if you all didn't exist or those 19 agencies didn't exist, that the private sector would not basically do what you all are doing because it would be in their interest to do so. If you could address that.

Ms. MARQUEZ. I will give it a small shot.

The private sector is providing a lot of these services to companies now. You will find companies such as Price Waterhouse, Arthur Andersen and other export counseling companies that provide fabulously good advice to companies on how to export, how to do it. They often do it for a $25,000 a month retainer fee. And this is the problem. It is which companies are we trying to reach? The Commercial Service, the USEACs are focused on the small- and medium-sized companies of the United States because we believe they are the engine of growth of the United States. They are the job creators. That is our future—that is our present, that is our future, and those companies are the ones that we want to get into exporting more than anything else.

I think that if we look at our trade data we will probably find that one quarter of it or more is Boeing alone, and maybe half of it is Boeing and maybe Lockheed and Grumman and the others. What we need to do is diversify the group of companies that are exporting from the United States and to make it affordable for them to do so. They cannot afford—the small companies cannot afford $25,000. They cannot afford $1,000 to pay for information on exporting.

So there needs to be an affordable, easy-access service to the small- and medium-sized companies. Because if they don't have it, it is not that they are going to go elsewhere. Because there is not any other that is more affordable. It is just that they are not going to export because they don't have to export because the United States economy is fine, at least it is for now. And the economy around Rockford, Illinois, they are making a nice living. Why should they bother going to France and exporting?

That is the issue. We found it in our national interest—Congress found it in the national interest to encourage small- and medium-sized companies, and there was a gap there. I believe that that is

why we exist, to serve that gap, an affordable service to those companies. Because if they don't access us, they simply will not be exporting.

And we do operate on a fee-paid basis so this is not all free services that are given. So there is a revolving fund that exists where fees are charged to just cover the costs, cost recovery only for this kind of service to businesses. That is why I said earlier our mandate is only to increase the number of SMEs that are exporting because there are too few and the base of companies that are exporting is not diverse enough.

The companies that are medium and large, they can afford to pay the counselors and the private sector consultants that are there, but others cannot.

The other one is the global network. It is through the U.S. Embassies and Consulates where most of our offices are. Those are preexisting operations. We have our Commercial Officers at 140 countries around the world that represent 95 percent of the markets for U.S. Businesses. So we are there, on the ground, providing, as I said, this basic primary research on contacts, on markets, on environments, et cetera.

You often—in fact, you most often will find that in the private sector they take that basic research that we generate for often free for the companies, and they repackage it and then charge many, many dollars to the companies that can pay for it. Again, we don't want to do that. We want to get companies exporting, and so we provide low-cost, easy-access service but only to the small- and medium-sized exporters.

Mr. CHABOT. Thank you, and I think that is a very good answer. I would—just to let you know my feelings about not just this program but most of what the government does, other than providing defense and some other things that I could name. I don't think anything is free, really. Because, yes, we may not be charging, but somebody is paying for it, and that is the taxpayers. And if it is in business' best interest ultimately as U.S. Business to export, they will find a way to export. And I don't think the government ought to be picking winners and losers.

And I just think because the government has gotten so involved in so many areas over the years that the level of taxation on individuals and businesses is much higher than it otherwise would be, and if we got out of their way then they will do what is in their best interest, for the most part. We do need environmental laws and certain laws to make sure that they are not harming society, that they are paying the taxes they owe, et cetera. But this certainly is not as bad or as—well, it is not as bad as many other things that the government does. And I think certainly your intentions are right, and as long as you are in existence we certainly want you to do the best job you can, and that is what the purpose of this hearing is.

Chairman MANZULLO. Will the gentleman yield?

Mr. CHABOT. Certainly, I will yield.

Chairman MANZULLO. I share your same beliefs on keeping government as small as possible. I have been a member for 7 years, and you and I have served on the same committees since 1995, but one of the things that I have noticed is that the Department of

Commerce really started out as an agency to do a couple of things. The first was to collect this incredible amount of trade data, because that determined the income that ran the Nation, before the income tax. So there was this huge amount of trade data that started to be compiled by the Department of Commerce, and that is really something that no private sector would even attempt to gather because it was pretty boring. It is exhaustive. You have to tie into all these different reporting agencies just to get that material.

And so, as the Department of Commerce evolved, it serves at finding out things such as import surges to undermine whether any dumping is occurring. So what has happened during this sometime, the Europeans began to heavily subsidize their corporations for exporting. So what the United States tried to do was to use the resources that of the Department of Commerce and the SBA to get out those statistics and the opportunities to export and the tools to export to the companies so that they would have some basic means of education within their hands in order to try to educate the rest of the American public.

Now, I don't usually make a case for government agencies, but somebody has to collect the trade data. Somebody has to determine whether or not dumping had occurred. That is what happened to one of our companies, Brake Parts of McHenry, whether or not the Chinese indeed were involved in dumping. As it turned out, they were, and we got to file an appropriate case on that, but we couldn't do that without the tremendous amount of data that Commerce had collected.

So Commerce continues to collect that data. No one put a grade for effort down there. There should be an A for effort.

What we are all trying to do, Steve, because I know you have been a part of it, is to expand export opportunities. You have a big tool and die center in Cincinnati, and we are very much concerned over the drop in exports on tool and die. What we are all trying to do is take this massive amount of government data from the national trade database, and convert that so that the companies can use the information to determine if they can be involved in exports.

Were you done?

Mr. CHABOT. Yes, just reclaiming my time, and I think you make very good points as well.

Chairman MANZULLO. But it means monitoring. We have the IG and the GAO. So they are half the team that is up here, so you can tell that we are trying to place an emphasis on efficiency.

Mr. CHABOT. Thank you for your time, and thank you for what you do. I think the government is growing too large, and we need to pare it down, and we haven't scratched the surface of what we do.

Chairman MANZULLO. We thank you for spending your afternoon with us. We thank you for updating us, and we look to another opportunity as the GAO and Inspector General's Office will continue to monitor the success that is going on and appreciate your coming this afternoon. Thank you.

This Subcommittee is adjourned.

[Whereupon, at 3:30 p.m., the Subcommittee was adjourned.]

DONALD A. MANZULLO
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REMARKS OF CHAIRMAN DONALD A. MANZULLO
BEFORE THE SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS
OF THE HOUSE SMALL BUSINESS COMMITTEE

"MEASURING IMPROVEMENTS IN THE U.S. EXPORT ASSISTANCE CENTER NETWORK"

September 9, 1999 2:00PM in Room 311 Cannon HOB

The Subcommittee will come to order. Today, we will continue our evaluation of the U.S. Export Assistance Center network. My good friend, Representative Steve Chabot and myself are the only Members who were part of this Subcommittee in 1996 when we held our last oversight hearing on this program. It's good to see some old and new faces as part of the witness panel.

We are here today because USEACs are unique in the federal government. It represents an innovative effort to consolidate, improve, and stretch the various export promotion programs spread throughout 19 federal agencies. From where the U.S. government was in the early 1990's, the auditing reports before us today confirm that there have been significant improvements in the delivering of export promotion programs to those interested in international trade.

The major problem outlined by the GAO appears to be a disunited effort to help small firms that are not ready to export but show potential. A minority of USEACs have aggressive, outreach programs, while the rest refer these small businesses to other resources. But there is little follow-up at these USEACs to see if these companies have graduated and are now prepared to export.

As a Member who has held numerous trade forums to encourage more companies to export, I know the frustration many trade specialists in the USEACs may feel about the lack of response to invitations for help. But this is not about outreach or marketing. It's about small companies that already know about USEACs but do not receive the appropriate help because they are not "export-ready." The GAO points to the SBA's E-TAP program as one tool that holds promise for assisting firms that are not ready to export. I am also familiar with several private sector alternatives that may be assistance, too. Our mutual goal should be that no small business that contacts a USEAC for export help is turned away because the company is not "export-ready."

We have a record trade deficit, mainly because of our recent anemic export performance. Small business accounts for nearly 93 percent of exporting manufacturers but accounts for only 30 percent of the value of U.S. exports. Clearly, we have our work cut out for us.

I look forward to the testimony of our witnesses, and I yield for an opening statement by the ranking minority Member, Mrs. McCarthy of New York.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Tax, Finance, and Exports, Committee on Small Business, House of Representatives

For Release on Delivery
Expected at
2:00 p.m., EDT
Thursday,
September 9, 1999

EXPORT PROMOTION

U.S. Export Assistance Centers' Efforts to Support U.S. Businesses

Statement of Benjamin F. Nelson, Director, International Relations and Trade Issues, National Security and International Affairs Division

GAO/T-NSIAD-99-242

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the activities of the U.S. Export Assistance Centers—the so-called USEACs. As you well know, small businesses offer great potential for export growth. However, they also are likely to seek export assistance—particularly those that have never exported. Various federal agencies and public and private organizations provide a range of export assistance activities, from giving export counseling to supplying export finance. Research by GAO and others in the late 1980s and early 1990s found that export assistance at the federal level was fragmented among 10 different agencies. In response, USEACs were created to strengthen the delivery of export promotion programs by serving as "one-stop shops" that would provide information on all export promotion activities available to U.S. firms seeking assistance. There are currently 19 USEACs.

We have followed the development of the USEAC concept and have reported on early implementation issues. My testimony today will focus on our most recent report: Export Promotion: U.S. Export Assistance Centers Seek to Improve Services (GAO/NSIAD-99-180, June 25, 1999). Specifically, I will discuss our findings related to (1) USEAC agencies' efforts to improve coordination among federal agencies and nonfederal export service providers and (2) the challenges USEAC agencies face in their efforts to better meet the needs of the business community—particularly firms that export services and firms that are not yet ready to export.

SUMMARY

Agencies participating in the USEACs are making joint calls on prospective clients and sharing information on clients and services, where appropriate. The USEACs have also pursued partnerships with nonfederal export-service providers, including state and local government, nonprofit, and for-profit organizations. In many cases, the USEAC agencies have co-located their staff in the same office suite or building with such nonfederal providers. For fiscal year 1998, nearly 20 percent of the "export actions" reported by

USEAC trade specialists mentioned at least one partner as having participated in assisting a firm in exporting a product or service.

While coordination among the various entities has improved, USEACs face significant challenges in helping firms that export services. At a time when opportunities for service sector exports are growing, Commerce's export promotion services are often unavailable or inappropriate for firms that export services—as they were largely designed for firms that export goods. Certain USEACs have initiated creative approaches to addressing this issue. For example, one USEAC helped to stage a series of international video conferences through which U.S. architects could gain market intelligence and meet potential clients. USEACs are also helping groups of service exporters in the design services sector (including architectural, engineering, industrial, graphic, and new media design) and the education sector to form consortiums through which they can jointly pursue export business.

Some USEACs have also used a special partnership program developed by the Small Business Administration (SBA) to assist enterprises that are not yet ready to export. Under this program, USEACs organize federal and nonfederal export-service providers into consortiums that provide firms that are not ready to export with comprehensive export training tailored to the firms' needs. USEACs then offer intensive follow-up counseling to those firms that successfully complete the program. Some firms participating in this program have become customers for USEAC export promotion and finance services and, ultimately, exporters.

BACKGROUND

The Export Enhancement Act of 1992[1] sought to improve the delivery of federal export promotion services by, among other things, requiring the Trade Promotion Coordinating Committee (TPCC) to develop a National Export Strategy that would include transforming the Commerce Department's nationwide network of district offices into

[1] (Pub. L. 102-429, Oct. 21, 1992).

"one-stop shops." In response, the TPCC brought together Commerce, SBA, and the Export-Import Bank (Eximbank) staff as part of a nationwide network of export promotion service-delivery offices. By mid-1999, there were 19 USEACs --supported by 84 satellite offices. The satellite offices, which generally have one or two Commerce staff members, are placed closer to outlying business.

Through the USEAC network, the participating agencies seek to deliver a full range of nonagricultural export education, promotion, and finance services to U.S. firms. Commerce provides export promotion services largely to export-ready, small- to medium-sized firms. SBA provides export finance primarily in the form of export working capital guarantees. It also offers export education services, largely through two quasi-governmental programs, to small firms that are not ready to export. The Eximbank offers a broad range of financing to exporters. In providing export promotion services, participating agencies are expected not only to coordinate among themselves but also to coordinate with nonfederal export-service providers, such as state agencies and world trade centers.

USEAC AGENCIES IMPROVE COORDINATION

In an effort to improve service delivery, USEAC agencies have taken steps to better coordinate their activities. For instance, they have encouraged USEAC staff from the different agencies to make "joint counseling" calls on clients. When joint calling might not be appropriate, USEAC staff shared information and referred clients to each other.

In 1996, we recommended that the USEACs establish a customer tracking system that would contain information on clients and services provided to them. During our recent work, we found that Commerce has introduced its new Client Management System (CMS) to the USEAC network. CMS may have the potential to serve as a USEAC-wide client tracking system that could be shared by all participating agencies. For example, access to a common database on clients could help participating agencies better target their services to client needs. SBA is currently working with Commerce to adapt the

CMS system to meet its needs and is training its USEAC staff to use it. The Eximbank also is considering introducing a client tracking system that would be compatible with Commerce's CMS.

All USEACs also coordinate at least some of their export service activities with nonfederal export-service providers. For example, USEAC staff make presentations at trade seminars sponsored by nonfederal organizations, enter into formal memorandums of understanding with nonfederal export-service providers, or participate on a partner's board of directors. Coordination may also take the form of co-location of USEAC staff in the same building or office space with nonfederal export-service providers. According to Commerce officials, about 75 percent of all USEACs and satellite offices are co-located with nonfederal partners. For example, the Portland, OR, USEAC is located in a World Trade Center with several state export promotion agencies and a nonprofit export-service organization. At the Atlanta, GA, USEAC, some staff from the Georgia Department of Industry, Trade, and Tourism actually work in the USEAC. Staff roles have been allocated so as to avoid duplication, and staff from both the USEAC and the state agency have access to each other's client tracking systems. According to the Atlanta USEAC Director, this arrangement has permitted the participating federal agencies to leverage their staff and extend their reach into the export community.

The level of coordination is reflected in the number of joint efforts. For fiscal year 1998, nearly 20 percent of the "export actions"[2] reported by trade specialists at the USEACs through the CMS system mentioned at least one partner as having participated in assisting the client. Over 6.7 percent of the export actions involved assistance by another federal agency, such as SBA and the Eximbank, as well as the Agency for International Development, the U.S. Department of Agriculture's Foreign Agricultural Service, and the Trade Development Agency. Over 14 percent of the export actions for fiscal year 1998

[2] Commerce has been using export actions as a measure of USEAC activity for about 3 years. Trade specialists submit export action reports when they believe their assistance has directly contributed to a firm's export sale of at least $1,000. Export actions are not a precise measure, however, since not all firms are willing to share the necessary information regarding their export sales.

mentioned nonfederal partners as having also contributed to the export. These included a wide variety of state, local, quasi-governmental, and nonprofit organizations.

USEACS SEEK TO IMPROVE ASSISTANCE TO FIRMS THAT EXPORT SERVICES

The1998 National Export Strategy reaffirmed a 1994 TPCC commitment to assist service sector firms seeking to export. According to the Commerce Department, U.S. service exports in 1998 were $260.3 billion, an increase of about 160 percent from 1988 and about 50 percent from 1993. In 1998, U.S. exports of services represented nearly 28 percent of total exports. The demand for U.S. services is fueled not only by increased foreign demand but also by the decentralization of manufacturing worldwide. U.S. firms need certain services as they seek to establish and maintain manufacturing facilities overseas. At the same time, technology has reduced the cost of providing services on a large scale and allowed them to be produced at a much greater distance from the customer.

Commerce, as part of a wider-ranging effort to strengthen assistance provided to exporters, formed an inter-USEAC Services Team to focus on the needs of service exporters.[3] In fiscal year 1998, about 10 percent of the export actions submitted by Commerce staff at the USEACs were in support of service exporters. The Services Team, which is organized into several industry-focused subteams,[4] found that service exporters sometimes have difficulty using Commerce's export promotion programs. These programs were largely designed for firms that export goods and are often unavailable or inappropriate for firms that export services. For example, service exporters have experienced difficulty using Commerce's Agent/Distributor Service

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[3]The Services Team is comprised of Commerce Trade Specialists from the Long Beach, CA, and Seattle, WA, USEACs; USEAC satellite offices, including those in Anchorage, AK; Honolulu, HI; Inland Empire, CA; Monterey, CA; Newport Beach, CA; Orange County, CA; Reno, NV; and San Francisco, CA; and overseas posts, including those in Buenos Aires, Argentina; and Ontario, Canada.

[4]Subteams include design services; training, consulting, and education; franchising; professional services; transportation; and travel and tourism.

program. This program, which U.S. manufacturing firms typically use to locate overseas agents or distributors, can be inappropriate for service firms, which might want to use it to identify individuals interested in licensing a patent or participating in a franchise.

In connection with their participation on the Services Team, Commerce staff at several USEACs we visited have employed innovative approaches to assisting firms that export services. For example, the USEAC satellite office in San Francisco is working with a consortium of firms in the design services industry (including architectural, engineering, industrial, graphic, and new media design) to develop a strategy to promote these firms' exports. Under such a strategy, firms can pool resources to create more effective marketing tools and take advantage of the enhanced visibility that the consortium achieves through its own brand name and its partnership with large, brand-name corporations. The San Francisco satellite office, in cooperation with the American Institute of Architects, has also initiated a series of international videoconferences through which U.S. architects can gain market intelligence and give presentations to potential clients.

In another example, the Portland and Seattle USEACs are working with U.S. colleges that wish to bring foreign students into the United States for education. Like tourism, education provided to foreign students in the United States is considered to be a service export. These USEACs, in conjunction with separate groups of colleges, have helped these colleges form consortiums to attract foreign students in a more cost-effective manner than if each college were to act separately. In Portland, the consortium members to date have begun establishing rules governing participation in the consortium and making proposals for joint efforts. These include developing a consortium web site, obtaining sponsors, and generating consortium publications.

SPECIAL PROGRAM MAY HOLD PROMISE FOR ASSISTING FIRMS THAT ARE NOT READY TO EXPORT

Beginning with its 1994 National Export Strategy, the TPCC has consistently characterized the USEACs as a key element in federal efforts to assist small- to medium-sized exporters and firms interested in exporting. Firms seeking USEAC assistance vary considerably in their ability to export. Commerce staff have traditionally focused on firms that are ready to export, and SBA and Eximbank staff provide export financing to firms that already have potential deals. As a result, most USEACs do not work directly with small- to medium-sized enterprises that are not ready to export but show potential. According to USEAC directors, bringing these firms to the point where they are export ready can be very labor-intensive and time-consuming. In such cases, the USEACs generally refer such firms to SBA-affiliated education programs or to nonfederal export-service providers with similar programs.

To better serve firms that are not ready to export but show potential, SBA has encouraged the USEACs to adopt a program called the Export-Trade Assistance Partnership (E-TAP). This program provides a structured mechanism for supplying such firms with comprehensive information on how to export and follow-up export promotion assistance. While this program was first developed by the SBA District Office prior to the creation of the USEAC network, the Seattle USEAC has adopted it as a primary program for assisting firms that are not ready to export. In addition, two other USEACs have had several years of experience with the E-TAP program, and seven others have recently used the program on one or two occasions.

While E-TAP programs may differ from location to location, they all involve three essential steps. First, the USEAC identifies not-ready-to-export clients with the greatest potential to export and encourages them to apply for the E-TAP program. Second, the USEAC forms a consortium of federal and nonfederal export-service providers who present comprehensive, in-classroom training on export matters to these preselected firms. Third, the USEAC staff provides one-on-one follow-up assistance to those firms that complete the training and decide to become involved in exporting. Firms pay a fee to participate in the program. Any firms successfully completing the program may apply a large portion of that fee to obtain a Commerce Department export promotion service.

For example, the Seattle USEAC presented an E-TAP program that permitted firms to apply as much as $200 of the $385 registration fee to obtain a Commerce service. Firms completing the program also may be encouraged to participate in an overseas trade mission, during which they would meet prospective customers and possibly make sales. An E-TAP program can be industry specific or presented to firms from several industries.

In Seattle, several of the firms that have participated in this program have gone on to export. These include a manufacturer of wastewater treatment facilities. This firm recognized that U.S. firms establishing manufacturing facilities overseas would need its products. At the suggestion of the USEAC, the company sent one of its managers to an E-TAP program in 1994. The company then developed a close working relationship with the Seattle USEAC as it gained experience working with a bank that finances export transactions, learned how to structure export transactions to ensure repayment, and contacted a law firm to handle the legal aspects of exporting. In 1995, the firm worked with Commerce to arrange a visit to Singapore where, working with a joint venture partner, it secured its first export sale—a $750,000 wastewater treatment facility. Exports now represent about 70 percent of the company's total sales.

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Mr. Chairman, and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions you may have.

Contact and Acknowledgments

For future contacts regarding this testimony, please call Benjamin F. Nelson at (202) 512-4128. Individuals making key contributions to this testimony included John Hutton and Joseph Natalicchio.

(711453)

United States General Accounting Office

GAO

Report to the Honorable
Gordon Smith, U.S. Senate

June 1999

EXPORT PROMOTION

U.S. Export Assistance Centers Seek to Improve Services

GAO/NSIAD-99-180

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

National Security and
International Affairs Division

B-283863

June 25, 1999

The Honorable Gordon H. Smith
United States Senate

Dear Senator Smith:

The interagency Trade Promotion Coordinating Committee (TPCC) was created in statute by the Export Enhancement Act of 1992[1] to, among other things, coordinate the delivery of federal export promotion services.[2] To carry out Congress' intent, three TPCC agencies—the Department of Commerce, the U.S. Export-Import Bank (Eximbank), and the Small Business Administration (SBA)—established a domestic network of 19 "one-stop shops," called U.S. Export Assistance Centers (USEAC). The agencies participating in this network were to coordinate among themselves as well as with nonfederal organizations, such as state agencies and world trade centers. Their goal was to deliver a full range of nonagricultural export education, promotion, and finance services to small- to medium-sized exporters and firms interested in becoming exporters.[3]

At your request, we examined activities of the USEAC network. Specifically, we identified (1) the nature of coordination among the federal agencies participating in the USEAC network and between these agencies and nonfederal export-service providers and (2) USEAC assistance to firms that export services and to firms that are not ready to export but show potential and interest in doing so.

In conducting this review, we interviewed officials and obtained pertinent documents at Commerce, SBA, and Eximbank headquarters and several trade associations. We visited the USEACs in Atlanta, Ga.; Baltimore, Md.; New York, N.Y.; Portland, Oreg.; San Jose, Calif.; and Seattle, Wash., where

[1]Public Law 102-429, October 21, 1992.

[2]Before 1992, U.S. firms seeking assistance in selling or financing exports faced a fragmented structure of federal agencies and programs. See our March 15, 1993, testimony, Export Promotion: Governmentwide Strategy Needed for Federal Programs (GAO/T-GGD-93-7); our August 10, 1992, testimony, Export Promotion: Federal Approach Is Fragmented (GAO/T-GGD-92-68); and our January 10, 1992, report, Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49).

[3]The TPCC has defined small- to medium-sized firms as those with fewer than 500 employees.

we also interviewed other export-service providers and clients. For the other 13 USEACs, we interviewed their directors by telephone. We also analyzed 6,009 "export actions,"[4] valued at approximately $4.2 billion, to assess USEAC efforts to coordinate with federal and nonfederal partners and assist firms that export services. These export actions were reported to Commerce by trade specialists at the USEACs for fiscal year 1998. (See app. IV for additional information on our objectives, scope, and methodology.)

Results in Brief

The U.S. Export Assistance Centers have sought to promote coordination among participating agencies through such activities as making joint calls on prospective clients and sharing information on clients and services, where appropriate. For fiscal year 1998, nearly 20 percent of the "export actions" reported by USEAC trade specialists mentioned a partner (or partners) as having participated in assisting the client. Currently, 5 of the 19 USEACs have staff from all three agencies, and 14 sites have staff from Commerce and SBA. In fiscal year 1998, the Commerce staff began using a new Client Management System (CMS) to track clients that has the potential to further enhance information sharing among these partner agencies. Access to this system, which contains detailed information on Commerce's clients, could potentially permit agencies to better target services to client needs. The USEACs have also pursued partnerships with nonfederal export-service providers–state and local government, nonprofit, and for-profit organizations that provide assistance to exporters. The USEACs have co-located their staff in the same office suite or building with these export-service providers or, otherwise, made arrangements to coordinate their export assistance.

In response to an October 1994 TPCC initiative, Commerce has sought through the USEACs to expand its assistance to firms that export services. The agency created an inter-USEAC Services Team, comprised of staff from USEACs and foreign posts, to devise means to do so. The team found that Commerce's export promotion programs were largely designed for firms

[4]Commerce has been using export actions as a measure of USEAC activity for approximately 3 years. Trade specialists submit export action reports when they believe their assistance has directly contributed to a firm's export sale of at least $1,000. These export actions are used as an indicator of the nature of the assistance provided by the USEACs. They are not a precise measure of this activity, however, since not all firms are willing to share the necessary information regarding their export sales. Further, Commerce's current system for collecting export actions is less than a year old, and some USEACs might not yet be able to take full advantage of all its features.

that export goods and are often unavailable or inappropriate for firms that export services. As part of this effort, selected USEACs have taken the initiative to use other approaches. For example, one USEAC helped to stage a series of international videoconferences through which U.S. architects could gain market intelligence and meet potential clients. USEACs are also seeking to help groups of service exporters in the design and education sectors to form consortiums through which they can jointly pursue export business.

The TPCC has affirmed the central role of the USEAC network in assisting small- and medium-sized enterprises. Many such firms, however, are not yet ready to export. Since assisting them can be time consuming, USEACs generally refer them to nonfederal partner organizations that specialize in helping such firms. But no formal mechanism existed for USEAC staff to follow up with firms that had been referred to nonfederal partners. Some USEACs are beginning to use a special program developed by SBA, which is tailored to the particular needs of such firms. Using this partnership program, USEACs can organize federal and nonfederal export-service providers into consortiums that provide firms that are not ready to export with comprehensive export training. USEACs then offer intensive follow-up counseling to those firms that successfully complete the program. Firms participating in this program have become customers for USEAC export promotion and finance services and, ultimately, exporters.

Background

The Export Enhancement Act of 1992 authorized the TPCC to establish a national export strategy for the federal government and to update Congress annually on implementation of and revisions to that strategy. In the context of this overall strategy, the act instructed the Commerce Department to use its domestic network of district offices as "one-stop shops" to provide exporters with information on all export promotion and export finance activities of the federal government. Rather than simply require Commerce to ensure that its district offices had the requisite information, the TPCC's national export strategy recommended that Commerce and two other TPCC agencies–SBA and the Eximbank–join their separate nationwide networks of service-delivery offices into one federal export promotion network of USEACs. This network would co-locate staff from all three agencies.

These agencies opened 4 pilot USEACs in January 1994 and have expanded the network to 19 USEACs and 84 satellite offices nationwide.[5] The satellite offices, which generally have one or two Commerce staff members, are placed closer to outlying business centers where USEAC clients are often located. (See app. II for a more detailed presentation of the USEAC network.) At the USEACs, Commerce provides export promotion services largely to export-ready small- to medium-sized firms, both directly and with the assistance of District Export Councils, which are comprised of local business representatives who share advice and expertise with firms interested in exporting. SBA provides export finance primarily in the form of export working capital guarantees. It also provides export education services, largely through two quasi-governmental programs, to small firms that are not ready to export. The Eximbank offers a broad range of export financing to exporters. SBA and the Eximbank have worked to harmonize[6] their export working capital programs, the only type of finance where the potential for competition exists. (See app. I for information on the legislative authority for these agencies' export programs and the types of services offered.)

USEACs market their services in various ways—directly to exporters through presentations at export conferences and seminars; by distributing literature, such as brochures or packets of information on their services; and through sites on the Internet's worldwide web. They also market indirectly through formal relationships with organizations, such as the banks that work with SBA and the Eximbank; and informal relationships with numerous state and local nonprofit and private organizations that represent USEAC services to their clients.

[5]Other federal agencies have limited representation at USEACs. The U.S. Department of Agriculture's Foreign Agricultural Service has staff representation at the Atlanta, Ga., USEAC. The Agency for International Development has staff representation at the Inland Empire, Calif., satellite office of the Long Beach, Calif., USEAC. Commerce's Economic Development Administration has staff at the Portland, Oreg., USEAC.

[6]The agencies agreed to a market segmentation plan that assigned SBA primary responsibility for assisting small businesses whose export working capital needs do not exceed a $750,000 exposure limit and made the Eximbank responsible for assisting exporters with greater export working capital needs. See our February 13, 1997, report, Export Finance: Federal Efforts to Support Working Capital Needs of Small Business (GAO/NSIAD-97-20).

USEACs Coordinate With Other Service Providers in Various Ways

USEAC partners have used coordination as a mechanism for delivering a wide range of export services to clients. Partnerships are encouraged through joint efforts with other federal agencies and nonfederal export-service providers, and co-location of staff.

Export Actions Reflect USEAC Cooperative Efforts

For fiscal year 1998, nearly 20 percent of the "export actions" reported by trade specialists at the USEACs through the CMS mentioned a partner as having participated in assisting the client. Many individual export actions mentioned more than one partner. Over 6.7 percent of the export actions involved assistance by another federal agency. These actions mentioned SBA and the Eximbank, as well as the Agency for International Development, the U.S. Department of Agriculture's Foreign Agricultural Service, and the Trade Development Agency. Over 14 percent of the export actions for fiscal year 1998 mentioned nonfederal partners as having also contributed to the export. These included a wide variety of state, local, quasi-governmental, and nonprofit organizations, such as the Georgia Department of Industry, Trade, and Tourism; the city of Santa Clara, Calif.; BAYTRADE, a quasi-governmental organization that promotes exports in the San Francisco Bay area; and the Maine International Trade Center.

Cooperation Among USEAC Agencies

Since the creation of the USEAC network, participating agencies have introduced various measures to promote coordination at the USEACs. For instance, they have encouraged USEAC staff to make "joint counseling" calls on clients. On such a call, staff from more than one USEAC agency would make a joint presentation to a client. When joint calling might not be appropriate, USEAC staff routinely refer clients to each other. In addition, USEAC staff also share information on clients, when appropriate. Commerce has also introduced its Client Management System to the USEAC network. CMS may have the potential to serve as the basis for a USEAC-wide client tracking system that could be shared by all participating agencies. Access to a common database on clients could help participating agencies to better target their services to client needs. As a result of Commerce's efforts, SBA has decided to use Commerce's CMS as its client tracking system. SBA is currently working with Commerce to adapt the CMS to meet its needs and train its USEAC staff on the use of the system. Moreover, the Eximbank is considering introducing a client tracking that would be compatible with Commerce's CMS.

Cooperation Between USEACs and Nonfederal Partners

All USEACs coordinate at least some of their export service activities with nonfederal export-service providers. This coordination ranges from joint participation in specific activities to co-location of staff and integration of operations. For example, several staff members of the Seattle, Wash., USEAC made presentations at a trade seminar sponsored by the World Trade Center of Tacoma, Wash., to firms interested in exporting. USEACs and nonfederal partners also refer clients to each other. At the New York, N.Y., USEAC, for example, USEAC staff have told clients to seek assistance at Brooklyn Goes Global, a not-for-profit organization associated with the local Chamber of Commerce that promotes the export of goods and services from Brooklyn. In addition, USEACs may enter into formal memorandums of understanding with nonfederal export-service providers or participate in a partner's board of directors.

Some USEACs are co-located in the same building or office suite with nonfederal export-service providers. For example, the Portland, Oreg., USEAC is located in the World Trade Center with several state export promotion agencies and a nonprofit export-service organization. In addition, the Atlanta, Ga., USEAC has integrated its operations with the Georgia Department of Industry, Trade, and Tourism. At this USEAC, staff roles have been allocated so as to avoid duplication, and staff from both agencies have access to each other's client tracking systems. According to the Atlanta USEAC Director, this arrangement has permitted the participating federal agencies to leverage their staff and extend their reach into the export community.

According to Commerce officials, about 75 percent of all USEACs and satellite offices are co-located with nonfederal partners, such as state agencies and world trade centers. As one of its National Performance Review[7] goals, Commerce pledged to increase that percentage to 100 percent by the end of fiscal year 1999.

[7]The National Performance Review is a major management reform initiative by the executive branch that is intended to identify ways to make the government work better and cost less.

USEACs Seek to Improve Assistance to Firms That Export Services

The TPCC first made a commitment to helping exporters of services in its 1994 National Export Strategy and reaffirmed that commitment in the 1998 update to that strategy. According to the Commerce Department, U.S. service exports in 1998 equaled $260.3 billion, an increase of about 160 percent from 1988 and about 50 percent from 1993. In 1998, U.S. exports of services represented nearly 28 percent of total exports. The demand for U.S. services is fueled not only by increased foreign demand but also by the decentralization of manufacturing worldwide. U.S. firms need certain services as they seek to establish and maintain manufacturing facilities overseas. At the same time, technology has reduced the cost of providing services on a large scale and allowed them to be produced at a much greater distance from the customer.

Commerce, as part of a wide-ranging effort to strengthen assistance provided to exporters, formed an inter-USEAC Services Team to focus on the needs of service exporters.[8] In fiscal year 1998, about 10 percent of the export actions submitted by Commerce staff at the USEACs were in support of service exporters. The Services Team, which is organized into several industry-focused subteams,[9] found that service exporters sometimes have difficulty using Commerce's export promotion programs, which were largely designed for firms that export goods and are often unavailable or inappropriate for firms that export services. For example, Commerce could not make available adequate, up-to-date, market research for design service firms. Also, service exporters have experienced difficulty using Commerce's Agent/Distributor Service program. This program, which U.S. firms typically use to locate overseas agents or distributors, can be inappropriate for service firms, who might use it to identify individuals interested in licensing a patent or participating in a franchise. USEAC directors, most of whom also stated that many current export assistance programs were not meeting the needs of firms that export services, echoed this finding.

[8]The Services Team is comprised of Commerce Trade Specialists from the Long Beach, Calif.; and Seattle, Wash., USEACs; USEAC satellite offices, including those in Anchorage, Alaska; Honolulu, Hawaii; Inland Empire, Calif.; Monterey, Calif.; Newport Beach, Calif.; Orange County, Calif.; Reno, Nev.; and San Francisco, Calif; and overseas posts, including those in Buenos Aires, Argentina; and Ontario, Canada.

[9]Subteams include design services; training, consulting, and education; franchising; professional services; transportation; and travel and tourism.

In connection with their participation on the inter-USEAC services team, Commerce staff at several USEACs we visited have implemented innovative approaches to assisting firms that export services. For example, the USEAC satellite office in San Francisco is working with firms in the design services industry (including architectural, engineering, industrial, graphic, and new media design) to develop a strategy to promote these firms' exports. This office, in cooperation with the American Institute of Architects, has initiated a series of international videoconferences through which U.S. architects gain market intelligence and give presentations to potential clients. It has also organized firms from a wide range of design sectors into a consortium through which the members can, among other things, (1) pool resources to create more effective marketing tools than would be feasible for any single firm and (2) take advantage of enhanced visibility that the consortium achieves through its own brand name and partnership with large, brand-name corporations.

In another example, the Portland, Oreg., and Seattle, Wash., USEACs are working with two separate groups of colleges to develop strategies for each group to promote the enrollment of foreign students. Like tourism, education provided to foreign students in the United States is considered to be a service export. These USEACs, working with separate groups of colleges, have helped these colleges form consortiums to handle their efforts to attract foreign students in a more cost-effective manner than if each college were to act separately. In Portland, the consortium members to date have begun establishing rules governing participation in the consortium and making proposals for joint efforts. These include developing a consortium web site, obtaining sponsors, and generating consortium publications.

The Portland, Oreg., USEAC has also found ways to use current Commerce programs to assist an organization that does not fit the traditional definition of an exporter. One of the USEAC's clients is a health provider that brings foreign patients into the United States for surgery and related treatments. It arranges for patients and their families to travel to the United States, provides medical care to the patients and meals and lodging for the family, and arranges for their travel home. Like tourism, this health provider's service is considered to be an export. Over the years, this firm has used the Portland, Oreg., USEAC to obtain National Trade Data Bank information and has participated in a Commerce Gold Key program in Hong Kong. Under the Gold Key program, U.S. embassies, for a fee, set up meetings in-country for U.S. firms seeking to meet with, among other things, potential customers, distributors, or agents.

Special Program May Hold Promise for Assisting Firms That Are Not Ready to Export

Beginning with its 1994 National Export Strategy, the TPCC has consistently characterized the USEACs as a key element in federal efforts to assist small- to medium-sized exporters and firms interested in exporting. Firms seeking USEAC assistance vary considerably in their ability to export. Commerce staff focuses on firms that are ready to export, and SBA and Eximbank staff provide export financing to firms that already have potential deals. As a result, most USEACs do not work directly with small- to medium-sized enterprises that are not ready to export but show potential. According to USEAC directors, bringing these firms to the point where they are export ready can be very labor intensive and time consuming. In such cases, the USEACs generally refer such firms to SBA-affiliated education programs or to similar state-affiliated or nonprofit export-service providers. Firms that have a viable domestic business are usually referred to a local Small Business Development Center. These facilities, sponsored in part by SBA, can provide the training that such companies need to build exporting into their business plan. Clients that do not meet this test are usually referred to the local Service Corps of Retired Executives chapter, which works with the firm to develop a business plan and to help to create the business processes needed to export. At each of the USEACs that relied on such organizations to assist not-ready-to-export firms, no formal mechanism existed for USEAC staff to follow up with firms that had been referred to education and training programs.

To better serve firms that are not ready to export but show potential, SBA has encouraged the USEACs to adopt a program called the Export-Trade Assistance Partnership (E-TAP). This program, which was developed by the SBA Seattle District Office in the early 1990s, provides a structured mechanism for supplying such firms with comprehensive export education and follow-up export promotion assistance. Essentially, E-TAP involves a comprehensive presentation of "how to" information on exporting to an audience of firms interested in becoming exporters. The E-TAP could be industry specific or could be presented to firms from several industries. While this program was first developed by the SBA District Office prior to the creation of the USEAC network, the Seattle USEAC has adopted it as a primary program for assisting firms that are not ready to export. In addition to Seattle, two other USEACs—Dallas, Tex., and Long Beach, Calif.—have had several years of experience with the E-TAP program. Seven other USEACs have recently used the program on one or two occasions. (App. III contains the agenda for a 1998 E-TAP program sponsored by the Seattle USEAC.)

While E-TAP programs may differ from location to location, they all involve three essential steps. First, the USEAC assesses its clients who are not ready to export in order to identify firms with the greatest potential to export and encourages them to apply for the E-TAP program. A client's readiness for export trade development is based on, among other things, its management commitment, financial capacity, product qualification (including sales history), market potential, and production capacity. Second, the USEAC forms a consortium of federal and nonfederal export-service providers who present comprehensive, in-classroom training on export matters to these preselected firms. Presenters with whom we spoke indicated that they consider participating in an E-TAP program a worthwhile exercise because it exposes them to potential clients and is a productive way to meet professional requirements that they work with small- to medium-sized firms that might not otherwise be able to obtain their services. Third, the USEAC staff provides one-on-one follow-up assistance to those firms that complete the training and decide to become involved in exporting. Firms pay a fee to participate in the program. Firms successfully completing the program may be permitted to apply a large portion of that fee to obtain a Commerce Department export promotion service, such as the Gold Key service. Firms completing the program also may be encouraged to participate in an overseas trade mission, during which they would meet prospective customers and possibly make sales.

In Seattle, several of the firms that have participated in this program have gone on to export. These include a manufacturer of wastewater treatment facilities that recognized that U.S. firms establishing manufacturing facilities overseas would need its products. At the suggestion of the USEAC, the company sent one of its managers to an E-TAP program in 1994. The company then developed a close working relationship with the Seattle USEAC as it gained experience working with a bank that finances export transactions, learned how to structure export transactions to ensure repayment, and contacted a law firm to handle the legal aspects of exporting. In 1995, the firm used the Commerce Gold Key program to arrange a visit to Singapore where, working with a joint venture partner, it secured its first export sale—a $750,000 wastewater treatment facility. Exports now represent about 70 percent of the company's total sales. Similarly, a Seattle engineering company decided that, to maintain a steady level of business, it would need to broaden its customer base by expanding to export markets. At the suggestion of the USEAC, this firm's President and Marketing Manager attended an E-TAP program. Subsequent to the program, the firm developed a working relationship with the USEAC and

eventually made its first export sale. This firm currently works in countries throughout the Caribbean.

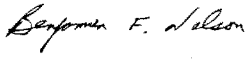
Agency Comments

Commerce and SBA provided oral comments on a draft of this report. Both agencies generally agreed with the information and analyses in the report. Commerce characterized the report as well balanced and focused on issues that the USEACs need to address. Commerce also emphasized that it is actively pursuing a strategy for improving assistance to firms that export services and that it supports the use of E-TAP as a method for assisting firms that are not ready to export but show potential. SBA also commented that its USEAC staff would soon be using Commerce's CMS client tracking system. Both agencies provided updated information that has been incorporated in the report where appropriate. The Eximbank did not comment on the report.

We are sending copies of this report to appropriate congressional committees; the Honorable William M. Daley, the Secretary of Commerce, who also serves as Chairman of the TPCC; the Honorable Aida Alvarez, Administrator of the Small Business Administration; the Honorable James A. Harmon, Chairman of the U.S. Export-Import Bank; and the Honorable Jacob Lew, Director, Office of Management and Budget. We will also make copies available to others upon request.

Please contact me at (202) 512-4128 if you or your staff have any questions about this report. Other GAO contacts and staff acknowledgments are listed in appendix V.

Sincerely yours,



Benjamin F. Nelson, Director
International Relations and Trade Issues

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Abbreviations

CMS	Client Management System
E-TAP	Export-Trade Assistance Partnership
Eximbank	U.S. Export-Import Bank
SBA	Small Business Administration
TPCC	Trade Promotion Coordinating Committee
USEAC	U.S. Export Assistance Center

Appendix I

Legislative Mandate for Agencies to Participate in Export Programs

As discussed in the following paragraphs, U.S. Export Assistance Center (USEAC) efforts to assist exporters are governed by legislation creating the USEAC network, as well as legislation governing the activities of each federal agency participating in the USEAC network. These agencies include the Commerce Department, the Small Business Administration (SBA), and the U.S. Export-Import Bank (Eximbank). Based on legislation, these agencies have developed programs and services, which they market to businesses both directly and indirectly through partner organizations.

The Commerce Department

The Omnibus Trade and Competitiveness Act of 1988 (15 U.S.C. 4721), as amended, outlines the basic responsibilities of the Commerce staff at the U.S. Export Assistance Centers. This legislation requires that they place primary emphasis on assisting small- to medium-sized businesses. Among other things, it instructs Commerce to identify such U.S. businesses with the potential to export goods and services and to

- provide them with information and advice on establishing export businesses;
- provide them with actual leads and an introduction to contacts within foreign countries and information on, among other things, economic conditions, market opportunities, and the legal and regulatory environment within foreign countries;
- assist them in locating reliable sources of business services in foreign countries and in their dealings with foreign governments and government-owned enterprises; and
- assist with the coordination of state and local government and private export-service organizations so as to maximize effectiveness and minimize duplication of effort.

Commerce implements these requirements through a broad array of export promotion programs and activities. These include

- counseling on various phases of exporting, often in conjunction with specific market information and possibly trade leads and referrals;
- market information from region-specific sources, such as the European Union Single Internal Market 1992 Information System; and global databases, such as the National Trade Data Base, which contains a vast amount of information and statistics on many aspects of exporting;
- trade leads and referrals, which seek to provide exporters with specific export sales leads, the opportunity to market products or services

abroad, and an in-country office to conduct business in export markets; and
- advocacy made on behalf of U.S. firms to foreign governments and government-owned enterprises.

The Small Business Administration

The Small Business Act (15 U.S.C. 631), as amended, among other things, created within SBA an Office of International Trade, which was authorized to promote small business exporting. This legislation instructs the Office of International Trade to work closely with Commerce and other export-service providers to assist the small business community by, among other things, aggressively marketing existing pre-export finance programs. The Office of International Trade pursues this requirement through the SBA staff at the USEACs, who devote nearly 80 percent of their time to promoting the agency's Export Working Capital Program and the remaining time to other USEAC-related activities. In addition, the SBA-affiliated Small Business Development Centers[1] provide counseling and in-classroom training, usually through a community college, on a wide range of business topics, including exporting. Similarly, the SBA-affiliated Service Corps of Retired Executives[2] program is composed of retired executives who volunteer their time to counsel small businesses on a wide range of business topics, including exporting.

The U.S. Export-Import Bank

The Export-Import Bank Act of 1945 (12 U.S.C. 635), as amended, governs the activities of the Eximbank's USEAC staff. This legislation creates the framework guiding Eximbank efforts to provide finance in the form of, among other things, insurance, guarantees, and loans to U.S. exporters. It instructs the Eximbank to promote small business exporting and the use of its programs "in cooperation with the Secretary of Commerce, the Office of International Trade of the Small Business Administration, and the private

[1]The Small Business Development Center program is a cooperative effort of the private sector; educational community; and federal, state, and local governments to deliver up-to-date counseling, training, and technical assistance in all aspects of small business management. There are currently 57 Small Business Development Centers, with a network of over 1,000 service locations. In 1998, approximately 4.5 percent of those who attended a Small Business Development Center training program or sought guidance from one of its counselors received instruction on international trade matters.

[2]Through the Service Corps of Retired Executives program, which was initiated in 1964, retired executives volunteer to assist individuals who need advice regarding starting or managing a small business. Program management does not maintain reliable information on the extent to which its counselors address trade-related issues.

sector . . . State agencies, chambers of commerce, banking organizations, export management companies, export trading companies, and private industry." Eximbank staff at the USEACs work with business directly and through two "multiplier" programs: the City/State Program and the Delegated Authority Program. Under the Eximbank's City/State Program,[3] qualifying state and local governments can provide Eximbank guarantees on a co-financing basis. Under the Eximbank's Delegated Authority Program,[4] qualifying lending institutions can process and approve an Eximbank working capital guarantee without the need for the Eximbank's approval.

USEAC Marketing of Programs and Services

USEACs market their services in various ways. They do so directly to exporters through presentations at export conferences and seminars. For example, USEAC staff use booths at conferences to distribute literature and meet with firms potentially interested in USEAC services. Such literature might include brochures, packets of more detailed information on USEAC services, or book-length publications, such as Commerce's A Basic Guide to Exporting. They also give presentations at seminars that seek to interest firms in exporting or to inform current exporters of the services available in a metropolitan area.

USEACs also market their services indirectly and on-line. They work indirectly through formal relationships with organizations, such as the finance organizations that participate in the Eximbank's City/State and Delegated Authority programs. USEACs also work through informal relationships with numerous state and local, nonprofit, and private organizations that represent USEAC services to their clients or refer their clients to the USEACs. Each of the primary USEAC agencies has a page on the worldwide web. These web pages contain a wide variety of information, ranging from "how to" information appropriate for those becoming interested in exporting to more specialized information for the experienced exporter. The Commerce web page also contains links to the web pages of individual USEACs. The primary agencies' web page addresses are Commerce (www.ita.doc.gov/uscs), SBA (www.sba.gov/oit), and the Eximbank (www.exim.gov).

[3]According to the Eximbank, 36 state and local organizations participate in its City/State Program.

[4]According to the Eximbank, 216 lending institutions nationwide participate in the Delegated Authority Program.

Appendix II

The USEAC Network

Table II.1 illustrates the USEAC network, which is comprised of 19 USEACs and 84 satellite offices. Of the 19 USEACs, 5 have staff from Commerce, SBA, and the Eximbank; the remaining centers have staff from Commerce and SBA. The satellite offices usually consist of one or two Commerce staff members. Nationwide, these satellite offices are aligned with the USEACs in a "hub-and-spoke" formation, although individual USEAC directors may alter the pattern.[1] USEACs are connected through Commerce with the Foreign Commercial Service at U.S. embassies and consulates. They also seek to work closely with the nonfederal export-service providers.

Table II.1: The Nationwide USEAC Network

USEAC	Federal agencies	Satellite offices
Atlanta, Ga. (Sunbelt) USEAC	Commerce SBA U.S. Department of Agriculture	Birmingham, Ala. Knoxville, Tenn. Memphis, Tenn. Nashville, Tenn. Savannah, Ga.
Baltimore, Md., USEAC	Commerce SBA	Arlington, Va. Charleston, W. Va. Harrisburg, Pa. Richmond, Va. Wheeling, W. Va.
Boston, Mass., USEAC	Commerce SBA	Marlborough, Mass. Middletown, Conn. Montpelier, Vt. Portland, Maine Portsmouth, N.H. Providence, R.I.
Charlotte, N.C., (Carolinas) USEAC	Commerce SBA	Charleston, S.C. Columbia, S.C. Greensboro, N.C. Greenville, S.C.
Chicago, Ill., USEAC	Commerce Eximbank SBA	Highland Park, Ill. Milwaukee, Wis. Peoria, Ill. Rockford, Ill.

[1]For example, the Atlanta, Ga., USEAC does not have each of its three satellite offices in Tennessee report directly to Atlanta. Rather, the offices in Memphis and Knoxville, Tenn., report to the satellite office in Nashville, Tenn., which reports to the Atlanta, Ga., USEAC.

USEAC	Federal agencies	Satellite offices
Cleveland, Ohio, USEAC	Commerce SBA	Buffalo, N.Y. Cincinnati, Ohio Columbus, Ohio Louisville, Ky. Pittsburgh, Pa. Somerset, Ky. Toledo, Ohio
Dallas, Tex., USEAC	Commerce SBA	Austin, Tex. Fort Worth, Tex. Houston, Tex. Oklahoma City, Okla. San Antonio, Tex. Tulsa, Okla.
Denver, Colo., USEAC	Commerce SBA	Salt Lake City, Utah Santa Fe, N. Mex.
Detroit, Mich., USEAC	Commerce SBA	Ann Arbor, Mich. Grand Rapids, Mich. Indianapolis, Ind. Pontiac, Mich.
Long Beach, Calif., USEAC	U.S. Agency for International Development (at Inland Empire, Calif., satellite office) Commerce Eximbank SBA	Inland Empire, Calif. Los Angeles, Calif. (downtown) Orange Country, Calif. Phoenix, Ariz. San Diego, Calif. Tucson, Ariz. Ventura County, Calif. West Los Angeles, Calif.
Miami, Fla., USEAC	Commerce SBA Eximbank	Clearwater, Fla. Orlando, Fla. San Juan, P.R. Tallahassee, Fla.
Minneapolis, Minn., USEAC	Commerce SBA	Sioux Falls, S. Dak.
New Orleans, La. (Delta) USEAC	Commerce SBA	Jackson, Miss. Little Rock, Ark. Shreveport, La.
New York, N.Y., USEAC	Commerce SBA Eximbank	Harlem, N.Y. Long Island, N.Y. Newark, N.J. Trenton, N.J. Westchester, N.Y.
Philadelphia, Pa., USEAC	Commerce SBA	Scranton, Pa.
Portland, Oreg., USEAC	Commerce SBA Economic Development Administration	Boise, Idaho Eugene, Oreg. Missoula, Mont.

USEAC	Federal agencies	Satellite offices
San Jose, Calif., USEAC	Commerce SBA Eximbank	Fresno, Calif. Honolulu, Hawaii Monterey, Calif. North Bay, Calif. Oakland, Calif. Reno, Nev. Sacramento, Calif. San Francisco, Calif. Santa Clara, Calif.
Seattle, Wash., USEAC	Commerce SBA	Anchorage, Alaska Spokane, Wash. Tacoma, Wash.
St. Louis, Mo., USEAC	Commerce SBA	Des Moines, Iowa Kansas City, Mo. Omaha, Nebr. Wichita, Kans.

Source: U.S. Department of Commerce, Office of Domestic Operations, U.S. & Foreign Commercial Service.

Appendix III

The Seattle USEAC's Export-Trade Assistance Partnership Program

Table III.1 shows the agenda for an Export-Trade Assistance Partnership (E-TAP) program managed by the Seattle, Wash., USEAC during March–April 1998. The sessions were held 7 days apart. The program involved 24 different speakers presenting 24 topics. To attend every session would require a commitment of nearly 22 hours of class time. This E-TAP represents the most recent one managed by the Seattle USEAC for a general (as opposed to single industry) audience.

Table III.1: Sample E-TAP Program Agenda

Session contents	Presenter's organization	Duration[a]
Session I – Introduction		
Welcome & introduction E-TAP overview Commitment to exporting Export issues & concerns	Seattle USEAC (SBA)	½ hour
Case study by former E-TAP participant	Private firm	1 hour
SBDC[b] export development programs	Seattle USEAC (SBDC)	¼ hour
Business plans	Seattle USEAC (SBA)	1 ¼ hour
Credit risk: due diligence	Seattle USEAC (Export Finance Assistance Center of Washington)[c]	¾ hour
Session II – Marketing		
Product and market research International pricing	Private firm	1 ¾ hour
International sales options	Consulting firm	2 hours
Session III – Marketing		
Commerce programs and services	Seattle USEAC (Commerce)	1 ¼ hours
International trade shows	Washington State International Trade Fair	1 hour
International culture and politics	Consulting firm	1 ½ hours
Legal issues	Private law firm	1 hour

Session IV – Legal and finance		
International methods of payment	Bank	1 hour
Local banking services	Bank	½ hour
SBA's and Eximbank's Export Working Capital programs	Seattle USEAC (Export Finance Assistance Center of Washington)[c]	½ hour
Specialized export finance and risk enhancement programs Insurance	Seattle USEAC (Export Finance Assistance Center of Washington)[c]	¾ hour
Session V – Tax, export documentation, and transportation		
Tax issues	Accounting firm	1 hour
Air freight forwarding	Freight forwarder	1 hour
Ocean service freight forwarding	Freight forwarder	¾ hour
Insurance	Insurer	1 hour
Session VI – Financial plan and wrap-up		
Developing your financial business plan	SBA Seattle District Office	2 ¾ hours
Washington State government's international trade programs	Washington State Departments of Community, Trade and Economic Development; and Agriculture	½ hour
Next step/wrap-up	Seattle USEAC (Commerce)	½ hour
Reception	Sponsored by accounting firm	

[a]All times are approximate.

[b]The Small Business Development Center (SBDC) in Seattle is located within the USEAC.

[c]The Export Finance Assistance Center of Washington, a state government export finance agency, is located within the Seattle USEAC.

Source: U.S. Export Assistance Center, Seattle, Washington.

Appendix IV

Objectives, Scope, and Methodology

At the request of Senator Gordon Smith, we examined activities of the USEAC network. Specifically, we sought to identify the nature of coordination among the federal agencies participating in the USEAC network and between these agencies and nonfederal export-service providers. We also sought to identify USEAC assistance to firms that export services and to firms that are not ready to export but show potential and interest in doing so.

To obtain background information on the USEAC network, we interviewed staff of the Trade Promotion Coordinating Committee (TPCC) Secretariat; Commerce, SBA, and Eximbank headquarters officials; the Commerce Office of the Inspector General; and staff at trade associations with an interest in USEAC operations. We reviewed documents provided by these organizations and reviewed legislation governing the creation of the USEAC network and the programs and services of participating federal agencies. We also obtained information on the location of all 19 USEACs and 84 satellite offices, lines of authority among them, agencies participating at each site, and the affiliations and activities of nonfederal partners at each site.

To determine the nature of coordination among USEAC agencies and cooperation with nonfederal export-service providers, we visited the USEACs in Atlanta, Ga.; Baltimore, Md.; New York, N.Y.; Portland, Oreg.; San Jose, Calif.; and Seattle, Wash. There, we obtained up-to-date information from the USEAC, as well as other export-service providers and clients recommended by USEAC staff, regarding the level of coordination among the USEAC partners and the nature of their cooperation with nonfederal export-service providers. These USEACs were selected based on geographic location, availability of resources, and the relevancy of one or more aspects of their operations to issues being addressed in this review. We conducted a telephone survey of directors at USEACs we did not visit to obtain information on the nature of their cooperation with nonfederal export-service providers and sought information on their most significant accomplishments in cooperation with such export-service providers. We also analyzed "export actions" submitted to Commerce's Client Management System (CMS) by its USEAC staff to identify those that mentioned participation by another export-service provider. Of the 6,009 export actions, 1,196 (19.90 percent) mentioned assistance from a partner export-service provider. We obtained information regarding Commerce's operation and use of CMS, and Commerce staff views on the validity of the information generated through the system but did not independently test CMS' accuracy or completeness.

To determine the status of USEAC efforts to provide assistance to firms that export services, we first obtained information on the service industry. During our visits to the USEACs in Atlanta, Baltimore, New York, Portland, San Jose, and Seattle, we obtained up-to-date information from the USEAC, other export-service providers, and clients (including several service exporters), regarding USEAC efforts to assist firms that export services. In our telephone survey of directors at USEACs we did not visit, we asked them to identify Commerce export promotion programs that are relevant to firms that export services and provide their overall opinion of whether they have the tools to help these firms and, if not, what needs to be done to strengthen Commerce assistance to such firms. We also analyzed "export actions" submitted to Commerce's CMS by its USEAC staff to identify those that dealt with assistance provided to service exporters. Of the 6,009 export actions that we analyzed, 636 (10.58 percent) involved assistance to firms that export services.

To determine the status of USEAC efforts to provide assistance to firms that are not yet ready to export, we obtained information from the Service Corps of Retired Executives and the Small Business Development Center headquarters offices regarding their services, nationwide network of sites, and cooperation with the USEACs. During our visits to the USEACs in Atlanta, Baltimore, New York, Portland, San Jose, and Seattle, we obtained up-to-date information from the USEAC, other export-service providers, and clients regarding USEAC efforts to assist firms that are not ready to export. We focused on this objective during our visit to Seattle, where we obtained in-depth information on that USEAC's E-TAP program from USEAC staff, presenters, and participating firms. In our telephone survey of directors at USEACs we did not visit, we asked them to identify the services they use to assist firms that are not ready to export, including an E-TAP program, and to comment on the relative success they have had with each.

We did our work from August 1998 to June 1999 in accordance with generally accepted government auditing standards.

Appendix V

GAO Contacts and Staff Acknowledgments

GAO Contact

John Hutton, (202) 512-7773

Acknowledgments

In addition to Mr. Hutton, Joseph Natalicchio, David Artadi, Carlos Evora, Jose Péña, Tracey Hébert-Barry, and Kathleen Joyce made key contributions to this report.

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UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

STATEMENT BY
JOHNNIE E. FRAZIER
INSPECTOR GENERAL
U.S. DEPARTMENT OF COMMERCE
BEFORE THE
SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES
SEPTEMBER 9, 1999

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to discuss some of the Office of Inspector General's work and recent observations related to the U.S. Export Assistance Centers (USEACs). I appeared before the Committee's Subcommittee on Procurement, Exports, and Business Opportunities just over three years ago to discuss the results of our early assessment of the development and rollout of the USEACs. I concluded that appearance by stating that although there were clearly problems, we were optimistic about the USEACs' potential to better address the export promotion and trade finance needs of U.S. exporters.

If I were to fast forward to the end of my statement here today, you would see that I essentially have the same conclusion– that there are indeed problems to be addressed, but I believe that the USEACs are demonstrating their ability and potential to better meet the needs of U.S. exporters. Several key factors cause my optimism, the foremost being that the USEACs have come a long

way in demonstrating how federal agencies can and should work together to better provide export assistance to U.S. businesses. And, secondly, the centers, while not perfect, represent a major improvement over the fragmented export promotion and finance assistance previously available to U.S. exporters.

Obviously, my office's work has concentrated on the USEACs from the perspective of the Department of Commerce. Primarily through the International Trade Administration, in particular the U.S. and Foreign Commercial Service (US&FCS), Commerce is expected to work closely with other federal agencies, as well as state and local governments, the U.S. business community, and others to promote export awareness and U.S. sales abroad. US&FCS, through its Office of Domestic Operations, operates the Export Assistance Center network with 19 USEACs[1] connecting 86 EACs in a structure often described as a "hub and spoke" network. The efforts to create the USEACs are consistent with the objectives of the Export Enhancement Act of 1992. The act directed the Commerce Department to (1) take the lead in establishing "one-stop" shops and (2) bring together the relevant federal, state, and local government and private sector organizations to better assist U.S. exporters.

Long before the establishment of the USEACs, the OIG recognized and highlighted the need for improved coordination of the federal government's export promotion efforts. Through more than a decade of inspections of individual US&FCS field offices–both domestic and overseas–we had

[1]Two of the 19 USEACs, Long Beach and New York, are managed by a Small Business Administration and an Export Import Bank representative, respectively.

too often found major gaps in the effective delivery of export promotion and trade finance assistance to U.S. exporters. Moreover, in March 1993, we issued a comprehensive report[2] on the Department's trade promotion efforts that supported the concept of "one-stop" trade shops and clearly emphasized the need for the federal government to have a more coordinated approach for meeting the export promotion and trade finance needs of U.S. exporters. In 1994, the Department, in its Trade Promotion Coordinating Committee role, led the effort to create a one-stop federal export promotion presence in the field by unveiling four pilot USEACs.

Recognizing the USEAC program's potential for success or failure and the resulting impact on small and medium sized firms who look to the government for some export assistance, we completed an early assessment of the development and rollout of the USEACs. In March 1996, we summarized our findings from this assessment in a report entitled *U.S. Export Assistance Centers Offer Reason for Optimism, but May Fall Short of Expectations*. At that time, our optimism was based primarily on the widely-held, favorable views and early experiences of many U.S. exporters, representatives from the private sector, and federal, state, and local government personnel that we interviewed. Overwhelmingly, they said that the USEAC concept–if properly implemented–should better link trade finance resources with export promotion and marketing services. At the same time, we identified some important observations and concerns with the USEAC concept and operations that warranted management's attention. We also made a series of recommendations to address our concerns.

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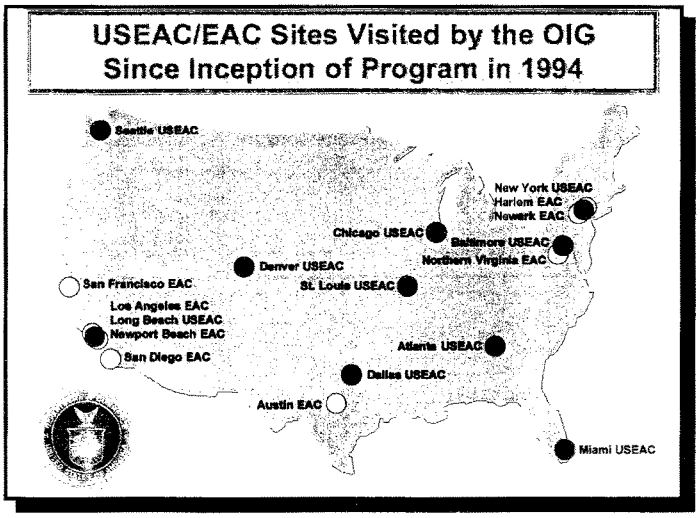
[2] *Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s*, IRM-4523.

Since our 1996 assessment of the development and rollout of the USEACs, we have monitored the changing status of the USEAC program through various audits, evaluations, and inspections. For example, last year, we conducted detailed inspections of the US&FCS operations at the Dallas and Seattle USEACs. These inspections focused on the program operations as well as some of the financial and administrative practices being followed by the USEACs. In addition, we recently completed a comprehensive follow-up review of our prior assessment of the Department's overall export promotion efforts.[3] Moreover, OIG staff have visited many export assistance centers in conjunction with other evaluations, inspections, or follow-up work, including several that I personally visited recently. As you might expect, we have found that most centers have some unique strengths and their own weaknesses. Each also appears to have its own special opportunities for success, and many have perceived threats looming over them. The following map highlights most of the centers that we have visited.

[3] *Management Improvements Needed to Better Prepare for the Export Challenges of the 21st Century*, March 1999, IPE-9904.



Let me share with you a few of our general observations about the USEAC program and US&FCS efforts to deliver export promotion services to U.S. businesses.

Federal Partners Are Increasingly Working in a Cooperative Fashion

This is the good news! My observations here are more about attitude–a quality that is relatively intangible and difficult to quantify; yet sets the stage for making a big difference. More often than not, we are finding that the collocation of export promotion and trade finance partners in the USEACs does in fact foster closer working ties and strengthens information exchanges.

Clearly when this happens, the result is improved export marketing and export finance assistance to small and medium sized U.S. businesses. We are seeing that SBA, US&FCS, and ExIm Bank–the components of the USEACs–are increasingly (1) conducting joint counseling of clients, (2) referring clients to each other, and (3) identifying joint opportunities for outreach to the business community. Each of these results in improved service delivery to the nation's exporting community.

In an effort to better serve firms that are not ready to export but show potential, several of the USEACs we recently visited (e.g., Seattle, Chicago, and New York) work closely with a special training program developed by SBA called the Export Trade Assistance Partnership program, or E-TAP. Essentially, the E-TAP program offers these firms (1) an assessment of their product's export potential, (2) an export orientation, (3) market entry preparation, (4) trade show preparation, (5) international business planning, (6) customized export training for specific products, and (7) ongoing counseling. In addition to their own staff, the USEACs sometimes bring in speakers and experts from state and local trade organizations, private financial institutions, and representatives from overseas posts. We believe this program provides the USEACs with an effective means for helping new-to-export firms. More specifically, during our inspection of the Seattle USEAC last year, the staff informed us that the E-TAP program has helped them to leverage their time by allowing them to train 10 companies at a time instead of individually on a standard issue. At that time, 30 percent of Seattle's E-TAP graduates had reportedly gone on to export after completing the course.

Similar to E-TAP, US&FCS has recently launched a Market Entry Program for new-to-export minority-owned firms under its Global Diversity Initiative. When we recently discussed this initiative with USEAC representatives in New York and Chicago, two of the nine centers where the program is being tested, they emphasized that (1) as with E-TAP, it also relies on the expertise of federal, state, or local partners and (2) it is geared toward getting minority-owned firms that are not yet "export-ready" closer to the reality of selling abroad.

During our visit to the Atlanta USEAC, we heard of the center's plan to provide space to a representative of the U.S. Department of Agriculture's Foreign Agricultural Service, in addition to its other partners. We believe that the addition of agricultural export promotion counseling to the USEAC should expand the export promotion services available at the Atlanta USEAC and provide valuable synergies in the area of food and food processing equipment. Likewise, last week during my visit to the New York City USEAC and its "spoke" centers in Newark and Harlem, I saw first-hand just how important it is to have the right people, committed to working with their federal partners and other interested parties. And while there is still a lot of work to be done in the New York hub to increase intra-USEAC referrals and other partnership activities, it is equally clear that changes in attitude and commitment are making a difference.

Staffing at Some USEACs Remains a Concern

One of the key issues that we raised in our review of the rollout of the USEAC program involved staffing. While SBA has at least one representative in every USEAC, Ex-Im Bank has staff

physically located in only four USEACs (Chicago, Long Beach, Miami, and New York). Ex-Im Bank officials emphasize that although they are not present in every USEAC, they attempt to visit the remaining USEAC sites during their routine visits to the major cities in their region. In addition, they pointed out that 36 EACs have Ex-Im Bank's city/state partners in their vicinity who serve as authorized agents for Ex-Im Bank trade finance and credit insurance products and services. While some of these representatives are extremely competent and fulfilling an important role in meeting USEAC objectives, such as the representative at the Seattle USEAC, interviews with state and local officials, and Ex-Im and USEAC personnel suggest that they do not have the same level of confidence in some of the city/state partners' ability and commitment to help carry out Ex-Im Bank's trade finance program.

USEACs Need a Better System for Identifying, Measuring, and Reporting Programmatic Accomplishments

In our 1996 review, we recommended that the USEACs have performance measures and criteria for assessing and encouraging the success of the USEACs as an overall entity and not only as the sum of the individual parts. Currently, the federal agencies assess their performance as follows.

- US&FCS accomplishments are being measured primarily on the basis of "export actions;"
- SBA is primarily measuring the number of loan guarantees packaged; and
- Ex-Im Bank measures its performance using a number of criteria, including loans packaged and credit insurance granted.

We have long observed that employees more aggressively pursue those measures for which they will be recognized and rewarded. If "USEAC" goals and criteria are not emphasized, the centers will have greater difficulties in pursuing the "one-stop" shop concept and in fostering a coordinated approach and cooperative attitude. Hence, to facilitate and quantify the performance of the USEACs, we are encouraging the development of additional criteria that are USEAC-specific, such as (1) requiring joint counseling sessions, (2) promoting mutually beneficial outreach activities, and (3) providing credit for intra-USEAC client referrals that are successful.

The USEAC Network Is Fostering Stronger Partner Relationships with State and Local Trade Organizations

With more state and local governments recognizing the importance of trade and increasingly investing resources to promote trade in their local jurisdictions, there is a need for increased partnering between federal and state and local trade promotion organizations to marshal their resources. To their credit, some USEACs have already gone beyond being simply a federal partnership by also physically embracing the resources of state and local export promotion organizations. These state and local partnerships have allowed the elimination of some duplicative programs and concurrently enhanced the quality and delivery of export assistance services to U.S. businesses. The Atlanta USEAC is one good example. The USEAC is physically collocated with state of Georgia representatives. We have found that through this partnership, Georgia businesses are able to receive coordinated export assistance from one location, the site of the Atlanta USEAC. In addition, many of the one-person EACs are collocated with state export

promotion agencies, local Chambers of Commerce, and other local export promotion organizations. These EACS are located near U.S. exporters in business districts, industrial parks, and other locations where U.S. firms do business. And finally, the local and state partners that we have interviewed are generally pleased with the USEACs' increased commitment and efforts to work with them.

Coordination Between the USEACs and US&FCS's Overseas Posts Could Be Better

One of the unique aspects of the US&FCS is its worldwide network–that is, its domestic and foreign offices are expected to work in unison to provide seamless support to U.S. exporters. We have found that more effective interaction was needed between US&FCS domestic and overseas staffs. Cooperation and interaction has been spotty at best and too often dependent on the commitment of the individual trade specialists and senior commercial officers at an EAC and an overseas post. Specifically, in our audits and inspections of overseas posts, we have confirmed cases where US&FCS posts overseas (1) were not timely in providing certain important products and services that USEAC clients were waiting for and (2) sometimes provided products and services of inferior quality. US&FCS managers are attempting to remedy this situation. For example, they are working to strengthen the relationships and coordination between the foreign and domestic operations with the "Teams" and the "Integration" initiatives.

The Teams initiative, which involves "teams" of trade specialists located throughout the United States who work to promote exports for a particular industry or a specific geographic region, has

the potential to be an important tool in improving ITA's effectiveness and coordination worldwide. For instance, many trade specialists informed us that through the "Teams" they have been better able to coordinate their trade event planning with the overseas posts. But we believe the Teams could be more effective if they routinely leveraged staff resources from other ITA units (such as the offices of Trade Development and Market Access and Compliance) to address specific trade-related issues.

In addition, the "integration" initiative, designed to increase the exchange of domestic and foreign trade specialists and commercial officers, has helped the domestic and overseas staff gain a better appreciation and understanding of each other's functions and challenges by providing opportunities for international staff to serve throughout the United States and for domestic staff to serve overseas.

Marketing to Potential U.S. Exporters of Products and Services Available at Centers Should Be Improved

What is the USEAC program? This is a question that is frequently asked. According to representatives of some of the federal, local, state, and private trade organizations we spoke with, the marketing of the USEACs is one of the biggest hindrances to the operation. Specifically, we have often found that some believe that the USEACs' are not effectively getting out the message of who they are, where they are, what they do, and what products and services they have to offer. During our inspection of the USEAC in Dallas, for example, one partner expressed a sentiment

that we have often heard: "The USEACs are one of the best kept secrets in the government." The US&FCS and the USEAC network is generally viewed as a valuable asset by those U.S. firms who know them, but at the same time it is believed to be largely unknown by many others. Some attribute this marketing problem to the confusion due to the fact that in recent years, the federal export promotion program has been referred to as many things, including the Department of Commerce Trade Promotion Program, the International Trade Administration Field Operation, the United States and Foreign Commercial Service, the Commercial Service, SBA International Program, EXIM Trade Finance Assistance, and finally, the United States Export Assistance Center.

In closing, I conclude largely as I did in 1996: We remain optimistic about the future of the USEACs and their potential to more effectively address the export promotion and trade finance needs of U.S. exporters. And while the level of coordination and quality of service varies from center to center, the USEAC network has surely improved the cooperation between the federal parties and various organizations in the field that are involved with promoting and financing U.S. exports.

******

This completes my statement, Mr. Chairman. I would be happy to answer any questions you and other Members of the Committee may have.

Attachment

Office of Inspector General
U.S. Department of Commerce

Final Audit and Inspection Reports and Congressional Testimony on the International Trade Administration's Trade Promotion Activities

January 1993 through September 9, 1999

General

1. Congressional Testimony on Department of Commerce's Trade Promotion Activities: Acting Inspector General Johnnie Frazier, before the House Government Reform and Oversight Subcommittee on Criminal Justice, Drug Policy, and Human Resources (March 25, 1999).

2. *Management Improvements Needed to Better Prepare for the Export Challenges of the 21st Century*, Final Inspection Report No. IPE-9904 (March 1999)

3. *ITA's Use of Interagency and Other Special Agreements*, Final Inspection Report No. IPE-10752 (September 1998)

4. *Trade Events: Improvements Needed in Planning and Management*, Final Audit Report No. IAD-9714-8-0001 (December 1997)

5. *Advocacy Center: Achievements Need Better Documentation*, Final Audit Report No. TID-8375-7-0001 (March 1997)

6. *Administrative Activities Should Be Further Streamlined*, Final Audit Report No. TID-7325-6-0001 (July 1996)

7. *Follow-up on Import Administration's Management of the Antidumping and Countervailing Duty Programs*, Final Inspection Report No. IPE-8530 (March 1996)

8. *Import Administration's Management of Anti-Dumping and Countervailing Duty Orders*, Final Inspection Report No. TTD-5540 (September 1994)

9. *Import Administration's Unauthorized Use of Copyright-Protected Software*, Final Inspection Report No. IRM-5513 (March 1993)

10. *Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s*, Final Inspection Report No. IRM-4523 (March 1993)

OIG Reports and Congressional Testimony on ITA's Trade Promotion Activities **January 1993 through September 9, 1999**

U.S. and Foreign Commercial Service

Overseas Posts

11. *The AIT Commercial Section Needs to Place Greater Emphasis on Trade Promotion and Improve Internal Controls*, Final Audit Report No. BTD-10220 (March 1999)

12. *Portugal is Effectively Providing Services, But Should Strengthen Program Management,* Draft Audit Report No. BTD-10594 (February 1999)

13. *European Union Mission Should Develop a Europe-Wide Commercial Strategy,* Final Audit Report No. BTD-10588 (January 1999)

14. *South Korea Needs to Augment Effective Program with Stronger Internal Controls,* Final Audit Report No. BTD-10221 (January 1999)

15. *USFCS Post in Belgium*, Final Audit Report No. BTD-10595-9-0001 (December 1998).

16. *USFCS Post in Japan*, Final Audit Report No. IAD-10218-8-00001 (September 1998).

17. *USFCS Post in Spain*, Final Audit Report No. IAD-10593-8-0001 (July 1998)

18. *Recent Overseas Inspections Found US&FCS Delivering Services Effectively but Facing Internal Constraints*, Final Inspection Report No. IPE-9178 (September 1997)

19. *USFCS Post in Germany: While Generally Productive, Its Priorities, Resources, and Activities Require Reassessment*, Final Inspection Report No. IPE-9287 (July 1997)

20. *USFCS Post in Indonesia*, Final Inspection Report No. IPE-9285 (May 1997)

21. *USFCS Post in Malaysia*, Final Inspection Report No. IPE-9284 (April 1997)

22. *US&FCS Post in Poland: Effective Post Needs Attention to Certain Management Issues*, Final Inspection Report No. IPE-9288 (April 1997)

23. *US&FCS Post in Thailand*, Final Inspection Report No. IPE-9286 (April 1997)

24. *US&FCS Mexico City Trade Center*, Final Audit Report No. ATL-7788-6-0001 (March 1996)

25. *US&FCS Post in Canada*, Final Inspection Report No. IPE-7875 (February 1996)

OIG Reports and Congressional Testimony on ITA's Trade Promotion Activities **January 1993 through September 9, 1999**

Export Assistance Centers

26. *Dallas U.S. Export Assistance Center*, Final Inspection Report No. IPE-11006 (September 1998)

27. *Seattle U.S. Export Assistance Center*, Final Inspection Report No. IPE-11007 (November 1998)

28. Congressional Testimony on U.S. Export Assistance Centers: Johnnie E. Frazier, Assistant Inspector General for Inspections and Program Evaluations, Commerce Office of Inspector General, before the Subcommittee on Procurement, Exports, and Business Opportunities, House Committee on Small Business (July 25, 1996)

29. *USFCS Export Assistance Centers Offer Reason for Optimism, but May Fall Short of Expectations*, Final Inspection Report No. IRM-7130 (March 1996)

30. *Mid-Term Review of US&FCS American Business Centers Shows Mixed Results*, Final Inspection Report No. IRM-6831 (September 1995)

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

JOHNNIE E. FRAZIER

Inspector General
U.S. Department of Commerce

Johnnie E. Frazier was sworn in as the fourth Inspector General of the U.S. Department of Commerce by Commerce Secretary William M. Daley on July 20, 1999. Mr. Frazier had served as the Department's Acting Inspector General since January 1998. As Inspector General, Mr. Frazier manages the Office of Inspector General (OIG), which is charged with conducting and supervising audits, inspections, and investigations of the Department's programs and operations. He is the Department's senior official in charge of promoting economy, efficiency, and effectiveness and preventing and detecting fraud, waste, and mismanagement.

Mr. Frazier also served as Assistant Inspector General from 1994 to 1998 and as Deputy Assistant Inspector General from 1984 to 1994 for the Office of Inspections and Program Evaluations. In recent years, he also directed the OIG's administrative functions, which included the organization's budget, human resources, and information technology operations.

A member of the Senior Executive Service, Mr. Frazier has demonstrated distinguished service throughout his more than 28-year federal career. He has received numerous awards, including the Commerce Silver Medal Award in 1988 and the Department's top award, the Gold Medal, in 1996.

Mr. Frazier holds a bachelor's degree in business administration, with an emphasis in accounting, from Howard University. He also has a master's degree in public administration from George Washington University.

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

PUBLIC RELEASE

INTERNATIONAL TRADE ADMINISTRATION

Management Improvements Needed to Better Prepare for the Export Challenges of the 21st Century

Inspection Report No. IPE-9904 / March 1999

Office of Inspections and Program Evaluations

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 19, 1999

MEMORANDUM FOR: David L. Aaron
Under Secretary for International Trade

FROM: Johnnie Frazier
Acting Inspector General

SUBJECT: Final Report: International Trade Administration Management Improvements Needed to Better Prepare for the Export Challenges of the 21st Century (IPE - 9904)

As a follow-up to our August 31, 1998, draft report, this is our final report on our program evaluation of Commerce's export promotion efforts. The report includes comments from your December 1, 1998, written response. Copies of your response, and those of the other Commerce agencies involved in international trade, are included in their entirety as an attachment to the report.

We primarily examined two elements of the Department's export promotion efforts: (1) how effectively the International Trade Administration manages its programs and operations, and (2) how well ITA and other units within the Department work together to expand business opportunities for U.S. companies through international exports.

Our report highlights some of the things that are working very well in ITA—including some related to (1) ITA's services and broad support for U.S. exporters and (2) the Department's collective efforts–both direct and indirect–at promoting U.S. exports. However, the report also highlights problems that hamper ITA's efforts to more effectively and efficiently carry out its export promotion responsibilities. Here we identify the need for ITA to better define, coordinate, and organize its varied roles and responsibilities. We also discuss the need to more clearly delineate responsibilities for international telecommunications trade policy and promotion between ITA and the National Telecommunications and Information Administration.

Finally, the report offers a number of other specific recommendations that we believe, if implemented, will better prepare ITA and the Department for the export promotion challenges of the 21st century.

Please provide your action plan addressing the recommendations in our report within 60 calendar days.

We thank you and the staff of ITA for the assistance and courtesies extended to us during our assessment. If you have any questions or comments about our report or the requested action plan, please contact me on (202) 482-4661.

Attachment

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EXECUTIVE SUMMARY

International trade is a vital element in the health of our nation's economy. It was reported in the Trade Promotion Coordinating Committee's (TPCC) 1997 National Export Strategy that "exports support over 11 million U.S. jobs–including one in five manufacturing jobs–and have been responsible for nearly 2 million new jobs in the past four years alone." In 1997, the U.S. exported $933 billion in goods and services. However, the United States' 1997 trade deficit, as reported by the Census Bureau, was $114 billion, which included a $199 billion deficit in goods and a $85 billion surplus in services. Thus, it is clear that much more needs to be done to reduce that deficit and further expand U.S. trade opportunities.

The Commerce Department's International Trade Administration leads the federal government's efforts to promote and increase U.S. exports. ITA has three units to principally spearhead its trade promotion efforts: Market Access and Compliance, U.S. and Foreign Commercial Service (US&FCS), and Trade Development. Import Administration, ITA's fourth unit, primarily enforces laws and agreements to prevent unfairly traded imports into the United States.

Although ITA is clearly the lead departmental agency in the area of trade promotion, it is not the only Commerce agency that plays a vital role in the advancement of U.S. exports. Several other agencies within the Department participate in export promotion activities and related trade policy discussions and negotiations.

We attempted to answer two basic questions during our review of the Department's export promotion efforts:

1. How effectively has ITA managed its trade promotion programs and operations?
2. How well has ITA worked with other federal agencies and other units within the Department to expand trade opportunities for U.S. businesses?

We observed that ITA has accomplished much in the area of trade promotion. We found that U.S. firms and potential exporters, as well as ITA's partners, are increasingly acknowledging ITA's efforts to help them increase exports and better compete in the global economy. ITA is doing this by (1) making progress towards establishing a government-wide strategy for export promotion activities, (2) providing U.S. firms with a greater awareness of export opportunities, and (3) offering improved services and support at its domestic and overseas offices. We found, for example, during our recent and frequent visits to overseas and domestic offices, that most people we interviewed spoke highly of ITA products, services, and support.

However, we also found problems and concerns in varying degrees in the internal structure of ITA and the guidance and direction provided by ITA senior managers. Fortunately, many of the internal organization and management problems facing ITA are not readily apparent to its clients and partners in the field. Nonetheless, these problems–many of them longstanding–warrant management's attention if ITA is to more effectively help U.S. exporters.

- Many of the problems in ITA's management of its programs and operations point to periodic voids in leadership and general direction of the individual units. Overwhelmingly, the ITA officials, managers, and employees that we interviewed spoke of these voids. We also noted that too often in the past, the Under Secretary position has been vacant and the Deputy Under Secretary has had to act as Under Secretary, while attempting to concurrently perform his job. In addition, because incoming under secretaries usually devote most of their time and effort to the Administration's many important program initiatives, ITA has often lacked the leadership and direction to effectively provide MAC, TD, and US&FCS with broad objectives, while at the same time providing organizational boundaries to help avoid overlap, duplication, and confusion. Senior ITA officials need to recognize the importance of effectively managing the agency and assume that responsibility. Foremost, this should include providing clear guidance and direction to each unit, holding each assistant secretary accountable for achieving their broad objectives, and ensuring that adequate cooperation and coordination exist between ITA units (see page 6).

- ITA's current organizational structure, as it has been managed, has encouraged a fragmented and often duplicative approach to providing trade promotion services and support to U.S. firms. Realizing the agency's organizational problems, both the former Under Secretary and the current Under Secretary have prepared reorganization proposals to address these problems and, in the process, many of the concerns noted in this report. We note that any reorganization of ITA should, at a minimum, aim to (1) reduce overlapping administrative and programmatic functions, and (2) remove organizational barriers that inhibit internal coordination and cooperation. We caution, however, that although consolidating many administrative functions within the ITA's Office of Administration is conceptually sound, the Under Secretary must ensure that the office has the capabilities and commitments to handle its added responsibilities (see page 6).

- The Omnibus Trade and Competitiveness Act of 1988 recognizes the importance of ITA in providing products and services to U.S. exporters. This is particularly true for the US&FCS since the Act specifically requires that the OIG periodically review US&FCS's efforts in this regard. We found that the US&FCS continues to undertake a variety of efforts to comply with specific requirements of the Act. US&FCS offers a number of export promotion products and services, most of which are designed specifically for small- and medium-sized companies. For example, in its Gold Key Service, one of the

more popular services offered, trade specialists in a target country will arrange appointments for a U.S. exporter with prescreened contacts whose interests and objectives match those of the client (see page 12).

- The Act also details specific reporting requirements for assessing the effective efficient management of the US&FCS foreign personnel system. This is the subject of a separate audit to be issued soon. We did, however, look at one key personnel management issue–commonly referred to as "integration." Although US&FCS's policy of better integrating its domestic and overseas personnel is sound, we and many US&FCS staff were disappointed with how the initiative was originally developed and implemented. The initiative was not well planned and did not adequately consider employees' concerns. To address these and other concerns, US&FCS recently conducted a study of its integration efforts and revised the integration initiative based on the results. This revised approach to integration appears to effectively address a number of employee concerns expressed to us during our review, though it does not go as far as some believe is necessary to encourage integration of other parts of ITA headquarters units with the field structure (see page 15).

- US&FCS's "Teams Initiative" could be a major tool in improving the effectiveness and coordination of ITA operations worldwide. This initiative has given its domestic staff a vehicle to help carry out trade promotion activities in a cooperative manner. Teams could be even more effective by routinely leveraging staff resources from other ITA units to address a specific trade-related issue. In order to achieve the highest degree of success, teams should not only coordinate their activities within US&FCS, but also work more effectively with ITA's offices of Trade Development and Market Access and Compliance, where appropriate. Additionally, we believe that the position of Teams Initiative manager should be moved from the field back to headquarters to increase the initiative's visibility and effectiveness (see page 19).

- ITA should make greater use of advances in information technology to improve both its in-house operations and programs, and the delivery of its products and services to U.S. firms. Some efforts currently underway in US&FCS appear to be headed in that direction, but more is needed (see page 23).

With regard to ITA's interaction with other federal agencies and other units within the Department, we found that:

- The TPCC has made some progress toward establishing a government-wide strategy for export promotion activities. In our 1993 report, *"Assessment of Commerce's Efforts in*

Helping U.S. Firms Meet the Export Challenges of the 1990s," we reported concerns about the lack of adequate interagency coordination. Since that review, ITA has established a TPCC Secretariat to improve the coordination between U.S. government agencies on federal trade promotion efforts and to also provide a permanent point of contact for federal or private sector representatives seeking information on TPCC activities. The TPCC still does not have the authority or clout to direct coordination or eliminate duplicative trade promotion efforts among the TPCC agencies. However, in fiscal year 1998, the TPCC Secretariat was tasked with reviewing the strategic plans of each TPCC agency and reporting to the Office of Management and Budget (OMB) on which agency programs are most effective and consistent with the policy goals articulated in the National Export Strategy. The TPCC Secretariat will now also report where there is duplication between agencies for OMB's consideration in developing the President's budget (see page 30).

- Too often, there is inadequate cooperation and coordination between the various U.S. agencies operating there to promote U.S. exports. For example, during several reviews of overseas posts, we found instances where the U.S. Agency for International Development and US&FCS staff did not effectively communicate on major USAID projects. A lack of coordination among TPCC agencies at posts can result in missed trade opportunities, inefficient operations, and embarrassing overlap and duplication. The TPCC, as well as ITA, should encourage greater interagency coordination overseas because it can be a valued asset to U.S. exporters (see page 32).

- Commerce's Economic Development Administration often provides grants to state and local governments and non-profit organizations to help them diversify the economies of, and create quality jobs in, communities impacted by various economic conditions. During this review, we examined several of these grants that were directly related to international trade and, more specifically, export promotion. Unfortunately, we found that EDA and ITA had not coordinated well on several EDA grants to fund local world trade centers. This situation creates confusion for ITA's partners and could potentially embarrass the Department. EDA and ITA should improve their coordination to prioritize and maximize the use of EDA funds for trade promotion efforts (see page 35).

- Through our discussions with officials at the Bureau of Export Administration and ITA, it appears that both agencies are working well together to assist U.S. firms in defense-related industries to develop new business opportunities in growing international markets. BXA officials stated they found both ITA's Advocacy Center and US&FCS to be very helpful and cooperative. In addition, BXA representatives attend US&FCS's annual senior commercial officer conferences in an effort to keep the officers informed about

BXA's activities to promote American defense company sales overseas and ways that US&FCS can be of assistance to the U.S. defense industry (see page 39).

- The Minority Business Development Agency and ITA should better coordinate their export promotion activities throughout the nation to provide more effective service to their clients. MBDA should work with and use US&FCS and other components of ITA as a primary source of trade assistance for MBDA's clients. Together with US&FCS's U.S. Export Assistance Centers, we believe that MBDA-funded minority business development centers and other funded organizations could help minority-owned businesses become an integral part of the U.S. exporting effort (see page 42).

- During our reviews of several overseas US&FCS posts, we noted the value, or potential value, that representatives from the National Institute of Standards and Technology (NIST) add to increasing the competitive position of U.S. exporters. NIST officials want to place additional standards representatives in other countries, such as developing nations needing guidance and assistance in their industry standards development. While we did not assess the need for such permanent versus temporary duty overseas assignments, we do encourage NIST to work closely with ITA and continue Commerce's efforts to provide assistance to developing nations, where NIST's advice and direction can help shape those nations' industry standards (see page 45).

- The National Marine Fisheries Service (NMFS), a major component of the National Oceanic and Atmospheric Administration, and ITA appear to be working well together on fisheries-related trade issues. To ensure that the two agencies maintain their positive working relationship, ITA and NMFS officials are moving to update their memorandum of understanding on the fisheries trade program (see page 46).

- Both the National Telecommunications and Information Administration and ITA are involved in promoting international market access and trade opportunities for U.S. telecommunications companies. Unfortunately, neither agency is coordinating its activities very well with the other (see page 47).

On page 52, we offer a number of recommendations to the Under Secretary for International Trade, the assistant secretaries for EDA and NTIA, and the Director of MBDA. Our recommendations are aimed at improving ITA, departmental, and federal export promotion efforts to assist U.S. companies meet the export promotion opportunities and challenges of the 21st century.

In ITA's December 1, 1998, written response to our draft report, the Under Secretary for International Trade generally agreed with all but one of our recommendations. The Under Secretary disagreed that improved coordination is needed between ITA and EDA. We found, as cited in the report, several instances of poor or misdirected communications between ITA and EDA that caused or had the potential to cause problems between US&FCS domestic offices and their partners. The Assistant Secretary for Economic Development, in his response, indicated his willingness to improve coordination with ITA on international trade related projects.

The Under Secretary also stated that "the report fails to recognize recent improvements" in ITA coordination since the prior 1992 report on the Department's export promotion efforts. Although we do, indeed, cite several examples in the report of improvements in internal ITA coordination, we have made some appropriate modifications to the final report in response to the Under Secretary's comments.

In addition, both the Assistant Secretary for Communications and Information, and the Under Secretary for International Trade both agreed with our observation that the two agencies do not effectively cooperate, at least at a headquarters level. Neither response, however, indicated that the two agencies would, as we recommended, (1) come to an agreement as to the respective roles and responsibilities of their agencies, (2) institutionalize their respective roles and responsibilities by revising the relevant DOOs, and (3) formalize their operating relationship in an interagency agreement. We reiterate our strong belief that the overlap and duplication, coupled with poor coordination at the headquarters level, are not the most efficient and effective ways to promote U.S. exports in the telecommunications industry.

Responses from the Director of the Minority Business Development Agency and Assistant Secretary for Economic Development each generally agreed with the observations and recommendations contained in our draft report. Each agency's response has been included as an appendix to this report.

Department of Commerce
International Trade Administration
U.S. & Foreign Commercial Service
Office of the Director General

STATEMENT OF

AWILDA MARQUEZ
ASSISTANT SECRETARY AND DIRECTOR GENERAL
U.S. & FOREIGN COMMERCIAL SERVICE

ON

"MEASURING IMPROVEMENTS IN THE U.S. EXPORT ASSISTANCE CENTER NETWORK"

BEFORE THE

SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 9, 1999

Testimony of Assistant Secretary and Director General Awilda R. Marquez
Before the Subcommittee on Tax, Finance, and Exports,
Committee on Small Business
U.S. House of Representatives
September 9, 1999

Introduction

Mr. Chairman, I would like to thank you, Representative McCarthy and the Members of the Subcommittee for providing me with the opportunity to speak to you about one of the true success stories in government: the U.S. Export Assistance Centers. I would ask that my complete statement be made a part of the official record.

Three years ago my predecessor, Lauri Fitz-Pegado, testified before Congress and gave an update of the U.S. Export Assistance Center network. At that time, although the network was not yet complete, its importance to the American exporting community had already been demonstrated. In the subsequent three years, I am pleased to report that the Export Assistance Centers have become a catalyst for small- and medium-sized companies seeking to expand their markets overseas and are an invaluable resource for the tens of thousands of companies which seek assistance from the Export Assistance Centers annually.

Exports are essential to the economic strength and security of this nation. In the ten years ending in 1997, U.S. exports increased over 140 percent (adjusted for price changes) and accounted for one-third of total economic growth. These gains have provided job opportunities for millions of Americans. Relative to the size of the economy, total trade (exports and imports) has risen from about 9 percent of GDP in the early 1960s to 24 percent today. Trade makes a tremendous contribution to the strength of our national economy and to the economic well-being of our citizens. Exports have accounted for a third of our economic growth and for jobs that pay 13 to 16 percent higher than other sectors. The Clinton Administration recognizes the importance of exports and the need to help American businesses, especially small companies, compete in an increasingly global market.

The 1992 Export Enhancement Act and the Trade Promotion Coordinating Committee (TPCC) report *Toward a National Export Strategy* called on Commerce's U.S. and Foreign Commercial Service (the Commercial Service) to join forces with the Small Business Administration (SBA), the U.S. Export-Import Bank (Ex-Im), the United States' Department of Agriculture's Foreign Agricultural Service (FAS), the U.S. Agency for International Development (AID) and other appropriate federal, state and local entities to coordinate and streamline export promotion and trade finance services. Almost six years have passed since we opened four pilot U. S. Export Assistance Centers in Baltimore, Miami, Chicago and Long Beach. I am pleased to join you today to show how we have not only achieved the goals first set out by Congress and the TPCC, but also have expanded on that original concept to the benefit of American exporters. By fostering strong partnerships with federal, state and local trade promotion organizations; incorporating technology; and strategically placing our resources where they could serve our clients most effectively, we created an integrated national export assistance delivery network.

Partnerships & the Export Assistance Center Network

Today, the Export Assistance Center network is comprised of over 350 employees located at 105 Export Assistance Centers nationwide providing export assistance to American companies nationwide. Each Export Assistance Center offers one-on-one counseling to businesses, particularly small- and medium-sized, with export potential. Commercial Service Trade Specialists work with firms to determine their export potential, find new markets and plan market entry strategies based on their experience and commitment to exporting. Aqua-Aerobic Systems, of Rockford, IL, a company that manufactures technologically advanced biological waste water treatment systems, utilized the expertise of the Rockford Export Assistance Center to identify new Latin American markets resulting in over $1million in new sales and several million dollars in prospective sales.

With the importance of coordination growing due to a scarcity of resources and a greater demand on services, it has become essential that the differences among organizations be transformed into synergistic opportunities. To most efficiently utilize our federal funding and capitalize on the strengths of other export assistance providers, the Commercial Service has pursued joint ventures with other government agencies and with the private sector to enable us to provide enhanced service to our clients. Undoubtedly, working together through partnerships at the point of service delivery is the most effective way to help the American exporter in today's climate of increased global competition.

The trade finance counseling provided by SBA and Ex-Im Bank professionals at several Export Assistance Centers complements the export marketing counseling offered by the Commercial Service. Increasingly, small and medium-sized export ready firms look to expand their overseas markets through working capital loans and export insurance that can help increase their capacity utilization and reduce the financial risks of international trade. Through joint counseling sessions and coordinated off-site visits, the Export Assistance Center staff have streamlined the export assistance process significantly.

The Export Trade Assistance Program or ETAP is an example of the how the SBA and the Export Assistance Centers partnership benefits American companies who are new-to-export. The ETAP program is a series of participatory seminars on exporting aimed at increasing a firm's international sales. ETAP provides the training for committed and capable companies to dramatically increase their export sales. Area economic assistance organizations contribute speakers, recruit export professionals, and mentor companies to ensure participants' success.

One company that has benefited from the ETAP program is Westar Corporation of Bridgeton, Missouri. The company states that, "[T]he ETAP classes followed right along with our sale to Korea. When the classes were talking about shipping, we were in the process of shipping our product."

Another example of federal USEAC partners working for the benefit of American exporters is the recent development of our Client Management System (CMS). The CMS database enables the Commercial Service network to track a client's export endeavor from the first counseling session in a domestic Export Assistance Center through the successful completion of an export sale using the services of an overseas Commercial Service office. Beginning October 1, 1999, SBA will adopt CMS as its database management system. This will allow the SBA and the Export Assistance Centers to share client information and provide improved client service. Ex-Im is looking into the feasibility of adopting the CMS as well. At the Chicago USEAC, prior to the database integration, Ex-Im and SBA are entering their respective client information into the Commercial Service's CMS giving that office a USEAC-wide client data management system.

Federal-state partnerships take many forms, but always involve sharing resources and common goals to help U.S. firms export. Partnerships turn differences into assets, create a seamless local export assistance infrastructure, and eliminate overlap and duplication among federal, state and local programs. Working together locally is the most effective way to help the small business exporter in today's climate of increased international competition and budgetary constraints on export development resources. The Export Assistance Centers are located in convenient, accessible places for local business communities. The original vision of providing a "one-stop-shop" for American exporters has become a reality. In the words of Kiss Products, a manufacturer of manicure products, from Long Island, NY, "Export Assistance from the Commercial Service has been an integral part of our success internationally."

Strong partnerships with state and local export promotion organizations are fundamental to increasing the effectiveness of federal export services. Where possible, Export Assistance Centers are co-located with other public and private partners (such as world trade centers and state development agencies). Co-location improves the accessibility to services and allows the leveraging of resources among partner organizations. Strong partnerships expand the range and depth of services available at a single site, and establish a more rational, integrated service delivery network.

The state of Ohio is an excellent example of Export Assistance Centers partnering with states. The state of Ohio, Commercial Service and SBA created the International Trade Assistance Centers in 1993 to provide assistance to clients not yet export ready and to bring these businesses up to a level where they can be assisted either by the state, SBA or the Commercial Service. Ohio's International Trade Assistance Centers have helped to increase the amount of Ohio exports. An article in the August 27, 1999 edition of the *Cincinnati Enquirer* stated that Ohio companies are expected to dramatically increase their exporting in the next five years. The article was based on a survey commissioned by the District Export Councils (DECs) in conjunction with the Ohio Export Assistance Centers. DECs are organizations of community leaders, appointed by the Secretary of Commerce, whose knowledge of international business provides a source of professional advice to firms seeking to expand international sales. DECs were established to support and promote the programs and services of the Export Assistance Centers and contribute to the development of a comprehensive local referral network and directory for the business community.

The Atlanta USEAC partnership was instrumental in the international roll out of the Commercial Service's PC based video conferencing equipment. The State of Georgia was awarded a Department of Commerce Market Development Cooperator Program grant to create a video conferencing network between several sites in Georgia and the State's 11 international offices. When the grant ended in September 1998, the state shared their video-conferencing experiences with the Department. The Commercial Service immediately recognized the benefit of this technology to trade promotion, and the equipment has now been installed in all domestic Export Assistance Centers and in selected sites around the world. Also, a website, created by Georgia a resource for general information about video conferencing, was adopted by the Commercial Service and now serves as our primary source for general information about video conferencing.

Seamless Delivery of Service

The underlying premise behind the creation of the Export Assistance Center was the desire to provide a seamless delivery of services to clients at one location. The "one-stop-shops" combine the marketing expertise of the Commercial Service, the financing

specialty of the SBA and Ex-Im, agricultural know-how of FAS and the procurement and trade-lead gathering experience of AID giving American exporters unparalleled export assistance. The Export Assistance Centers actively engage in joint client calls and joint training such as last years Trade Specialist Training in St. Louis. The Export Assistance Centers are committed to seamless service delivery and every Commercial Service annual performance plan has one element dedicated to working with partners. On a managerial level the federal Export Assistance Center partners meet annually to develop a strategic plan for the upcoming year and hold at least quarterly TPCC USEAC working group meetings to monitor progress. In St. Louis, the office is considered a "one-stop capital shop" as well as a "one-stop export marketing shop" where appointments are being set up for SBA by the Commercial Service and vice versa. Resources are leveraged and joint goals are established. In the words of Randy LaBounty, the St. Louis USEAC Director, "The Commercial Service succeeds; SBA succeeds; and the client succeeds."

Initiatives

The Commercial Service maximizes scarce resources through initiatives such as Teams Initiatives, the Rural Export Initiative, the Electronic Commerce Initiative, the Global Diversity Initiative and Innovation 2003. All of these initiatives enable Trade Specialists to work collectively throughout the country on programs that benefit the entire Export Assistance Center network.

Teams

Commercial Service Teams Initiative has made a significant contribution to ITA's goal of integration and increased communication between ITA units. After five years, the Commercial Service Teams have matured and now have a solid and effective international structure that coordinates activities across the U.S. This international structure, headed by a headquarters team coordinator, has facilitated increased communication and coordination of trade promotion programs by all International Trade Administration (ITA) units. A large number of Foreign Service Nationals, Commercial Officers, and representatives from other ITA units have joined Commercial Service domestic Trade Specialists to bolster Team's international and industry expertise. Teams

are also incorporating local trade partners and the private sector into their membership as affiliate team members.

Teams are field driven and created to better serve their clients. By bringing together the best expertise that the ITA has to offer, Teams are developing new and innovative programs using the latest technology in order to meet the needs of SME clients in this fast moving trade environment. Teams are reaching out to clients through industry focus groups to solicit input on how they can meet specific industry needs. Teams are working together with the private sector to conduct training programs that further develop the expertise of our trade counselors around the world. With a focus on innovation, the teams have increased outreach to new clients, developed enhanced matchmaking programs, and used new technology, such as web-casting and video conferencing, to educate clients and put them in virtual touch with buyers overseas.

Teams are reaping success by delivering high quality and timely service to clients. Several measures of this success include an increase in our client base, including more minority and rural clients; more focused distribution of trade leads and multilateral bank opportunities through our team structure; more expert counseling delivered directly to clients; and increased team support for reverse trade missions.

The United States is the world's leading provider of services and in 1995 services accounted for 70% of US GDP or US$4 trillion. In order to meet the needs of this rapidly growing industry, the Export Assistance Centers created a Services Team divided into five sub-teams: design and construction (design: architectural, engineering, industrial, graphic, new media); education; franchising; transportation; and travel and tourism. These sub-teams are continuously holding focus groups with clients and refining their strategies. In some cases, strategies are being replicated from one subgroup to another to take advantage of cross-disciplinary synergies and to facilitate export promotion efforts. Because of the lack of existing tools such as available market research, and proven strategies, the incubation time for seeing results in export actions and success stories is longer than the normal 12-18 months. However, as strategies are

replicated across sub-sectors, the R& D time needed to determine how best to assist companies is expected to diminish.

A key part of our Service Industries Initiative is the San Francisco Design Solutions that is made up of 17 Bay Area design firms encompassing graphic, industrial and new media (web) design and international marketing services. The consortium is supported through the combined and leveraged resources of the member firms, and through the support of firms in allied industries. During the pilot phase of the project (due to end on September 30, 1999) the Commercial Service has acted as a catalyst to bring the group together and is helping the group to establish overseas "brand identity" through the development of strategic alliances and direct contact with potential clients.

An example of a new program is the collaborative effort between the Services Team worked with the Association of Western Washington International Student Advisors to form the Washington State International Education Consortium. The consortium works with local public and private-sector partners, such as the Washington State Tourism and the Trade Development Alliance of Greater Seattle, to raise the profile of Washington State schools in the international sector.

Rural Export Initiative

The Commercial Service is dedicated to providing the best in export promotion services to rural America. The Rural Export Initiative was launched to reach small and medium-sized companies who are export ready, but have not had full access to international trade services because they are located in remote areas or in business centers away from major metropolitan areas. The Rural Export Initiative and E-Commerce projects are jointly funded by a direct line item appropriation from Congress.

Many rural companies share common characteristics: they lack access to trade services such as counseling, banking and freight forwarding experts; they don't have peers who can share international experiences; they do not regularly interact with people from other nations; and they often do not have the benefit of industry clusters. We are dedicated to

finding rural companies with the capacity to succeed and to assisting them in entering the international marketplace.

A key element of the Rural Export Initiative strategy is increased outreach and travel by our Trade Specialists to rural communities across the United States. Our Trade Specialists are seeking and establishing new partnerships and strategic alliances with rural business multipliers and economic development organizations. These new partnerships will provide rural companies with better access to Commercial Service export assistance and global market research.

One of the hallmarks of the Rural Export Initiative is its utilization of technology, particularly Internet applications. One such application is Webcasting. The Commercial Service has developed a site on the Internet where trade specialists can broadcast seminars on international trade issues to rural companies. We are developing a "library" of webcasts for U.S. companies to utilize. The Rural Export Initiative provides companies with better access to export assistance, global market research, and other international trade services through increased outreach and innovative use of technology.

An example of an Export Assistance Center utilizing E-commerce to the benefit of rural companies occurred on March 10, 1999 when the Phoenix EAC, in cooperation with the Rural Exports Team and the Multicultural Team, conducted a briefing and live video conference with our office in Milan, Italy. The briefing was held at the 1999 Reservation Economic Summit & American Indian Business Trade Fair, held in Phoenix, AZ. Conference participants included American Indian entrepreneurs, tribal economic and business development decision-makers, as well as tribal government representatives. Subjects discussed included services available from the Commercial Service, the Rural Export Team's "Incubator" program, and the Multicultural Team's "Global Diversity Initiative." In addition, Commercial Service Milan provided an overview of the Northern Italian Market for Indian indigenous products, and interviewed an Italian buyer who inspected samples on the spot and negotiated directly with suppliers. More than sixty people attended the event.

E-Commerce

In order to remain competitive in today's world economy, American exporters must take advantage of tools that can help them quickly and effectively reach their international customers. One of the most important tools to accomplish this is the Internet and the implementation of E-commerce strategies.

The Commercial Service has developed a suite of video conferencing products and services including the Video Gold Key, the Video Meeting and the Video Market Brief. These products and services utilize the latest computer technology and assist American companies with their export endeavors without leaving their office.

The Video Gold Key is intended to be an enhancement that may be added to the regular Gold Key – the most popular Commercial Service product where an overseas post makes individualized in-country appointments with potential overseas buyers. The Video Gold Key provides the client an opportunity to test the market prior to traveling to the country for Gold Key service, prescreen foreign buyers, and focus their efforts. It is not intended to replace the Gold Key product. Therefore, the pricing includes the cost of the first day of a regular Gold Key plus the video conferencing costs. As such, when a company decides to go "in country" for in person meetings, the first day of the Gold Key has already been paid for. The only additional charges are the fees for the second and third day's appointments, driver costs, interpreter fees and other incidental expenses.

Clients/partners/other interested parties may want to have a video conference with their overseas distributor, agent or other parties overseas. The costs for these conferences will include the line charges and other associated fees. A typical video conference will last one hour.

The Video Market Brief is a thirty-minute appointment that allows U.S. companies to connect with an overseas Commercial Service office via video in order to obtain a current view of the overseas market. After a fifteen minute presentation by the Foreign Service Officer or Foreign Service National, the video conference is open for questions. Questions that need researching are listed at the end of the video conference. The

overseas Commercial Service office will then determine how much it will cost to do the necessary research and generally provide the cost to the client the following day.

Most of us have participated in a trade show of some kind. The Commercial Service changed the perception trade shows in FY99 when we debuted our virtual trade show, E-Expo USA. The best way to describe a virtual trade show is to think of an electronic catalog where many products are listed and categorized accordingly. Virtual trade shows are expected to be one of a new series of products for the commercial service which will assist U.S. companies in export promotion by bringing product information to potential buyers through electronic means. Companies have the ability to place photos a description and pricing information for their product in an electronic trade show format and link to their own websites.

Virtual trade shows enable U.S. exporters to exhibit their products and services internationally on-line via the Internet before, during and after a specific trade show. These electronic trade shows enable firms that are planning to attend an actual trade show to conduct pre-event promotion - even establishing preliminary contracts prior to the event. In effect, they serve as an on-line catalog show. For firms that would like to participate in an international trade show, but are unable to actually attend the event, virtual trade shows let companies have an electronic presence. Trade leads and international sales interests are collected and forwarded to the client for follow-up. Company product and service information remain on-line for 365 days, enabling all participants in virtual trade shows to benefit from post-event promotion. To date, nearly 600 companies have registered with E-Expo USA.

Global Diversity Initiative

This year, the Commercial Service introduced an initiative that forges new pathways between minority owned businesses and opportunities in the global marketplace. The Global Diversity Initiative capitalizes on America's diversity through trade by creating comprehensive programs that will: increase the number of minority owned firms exporting their services and products abroad; expand the capability of minority firms

entering international trade; and enhance the nation's economy through increased trade by minority firms

The Global Diversity Initiative works at both the national and local levels to accomplish these goals by partnering with national and local organizations, conducting substantial outreach activities, and integrating minority-owned firms into Commercial Service programs.

The Global Diversity Initiative works at both the national and local levels to identify minority owned firms that are ready to export through the nationwide network of Export Assistance Centers. These Centers, together with their Commercial Service counterparts overseas, have the expertise to provide minority owned businesses with the international trade information and industry connections that can make their product or service successful in the global marketplace.

In April 1999, the Global Diversity Initiative launched a new training and outreach program focused on increasing the number of minority-owned firms who export. The Market Entry Program is a six-month program that prepares firms to sell their products and services internationally by providing training, ongoing consultation and support, and participation in a trade mission to either Canada or Mexico in January 2000. The nine pilot sites for the Market Entry program during fiscal year 1999 are Los Angeles, CA; Seattle, WA; Phoenix, AZ; Albuquerque, NM; Houston, TX; Atlanta, GA; Miami, FL; New York City, NY and Chicago, IL. Based on the success of the initial pilot, in fiscal year 2000 the initiative has been expanded to an additional nine sites: Detroit, MI; Minneapolis, MN; New Orleans, LA; Newark, NJ; Dallas, TX; Denver, CO; Orange County, CA; San Francisco, CA; and Charlotte, NC.

Innovation 2003

The Commercial Service is one of the few USG agencies that provide direct service to the business community. This unique relationship necessitates that the Commercial Service maintains credible, flexible, business-friendly and business-relevant services that keep up with the dynamic, technology-based pace of business.

Recent focus groups and customer surveys have shown that the needs of small- and medium-sized businesses have changed dramatically in response to advances in technology, increased global competition and the growing demand for services exports. The Commercial Service has responded to clients' changing needs through an ambitious modernization and new product development initiative, Innovation 2003. In addition to improving its portfolio of products and services, service delivery mechanisms, business processes and quality standards, the initiative also makes innovation and product improvement a part of every employee's job.

Pilot programs designed to test new and enhanced products and services, and new business processes, are underway at 48 sites throughout the Commercial Service network. The innovations being tested focus on increasing flexibility and customization, harnessing new technologies and increasing partnerships to expand the access of small- and medium-sized businesses to the resources and capabilities of the private sector and state/local governments.

The goals of Innovation 2003 are: to develop a product line that anticipates clients' changing needs and is flexible enough to meet those needs; business processes that support flexibility and continuous improvement; greater use of technology in all aspects of product development and delivery; greater client intake and client satisfaction; and greater cost recovery, cost savings and revenue generation for the Commercial Service..

Conclusion

Let me close my telling you what an exciting time it is at the Commercial Service. The federal, state and local partnerships, Teams, Rural Export Initiative, E-commerce products and services, Global Diversity Initiative and Innovation 2003 only begin to scratch the surface of the changes underway to better-serve the American exporting community. The over 350 Domestic Export Assistance Center employees are dedicated, hardworking and committed to providing export assistance service that is second to none and their enthusiasm is contagious. I invite each of you to visit your local Export Assistance Centers to observe firsthand the tremendous service that they provide to your

constituent businesses that seek to export. Thank you for the opportunity to testify. I will be happy to answer any questions at this time.

International Trade Administration

The **International Trade Administration** is responsible for most nonagricultural U.S. trade issues and works with the Office of the U.S. Trade Representative in coordinating U.S. trade policy. ITA has four principal units:
Market Access and Compliance. MAC develops and implements international economic policies of a bilateral, multilateral, or regional nature. Its main objectives are to obtain market access for American firms and workers and to achieve full compliance by foreign nations with trade agreements signed with the United States.
Trade Development. TD advises on international trade and investment policies pertaining to U.S. industrial sectors, carries out programs to strengthen domestic export competitiveness, and promotes U.S. industry's increased participation in international markets.
Import Administration. IA defends American industry against injurious and unfair trade practices by administering the antidumping and countervailing duty laws of the United States, and enforcing other trade laws and agreements negotiated to address such trade practices.
U.S. & Foreign Commercial Service. US&FCS promotes the exports of U.S. companies and helps small and medium-sized businesses market their goods and services abroad. It has 98 domestic offices and 138 overseas posts in 75 countries.

FY 1998 Financial Statements Reviewed Under Agreed-Upon Procedures

During the prior four fiscal years, the OIG contracted with an IPA firm to perform a full-scope audit of ITA's financial statements. These audits resulted in disclaimers of opinion due to material weaknesses in ITA's internal control over financial reporting. Because ITA management indicated that substantive corrective actions had not been fully implemented for FY 1998, the OIG altered the scope of work from conducting a full-scope audit to performing certain agreed-upon procedures. The purpose of these procedures, which we defined, was to perform limited testing of corrective actions made to date and to support the FY 1998 Department of Commerce consolidated financial statements audit. This approach was also designed to afford ITA an opportunity to focus its efforts toward the FY 1999 financial statements audit.

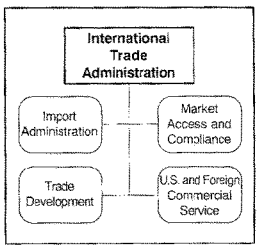
In its report, the IPA firm noted that ITA had completed the planning and early implementation stages of two major initiatives that should dramatically improve the bureau's financial management:

- ITA has a contract with an IPA firm to develop standardized financial policies and procedures for overseas posts in support of CFO Act requirements. Such policies and procedures should correct two of the six material weaknesses identified in the firm's FY 1997 report on ITA's financial statements (see March 1998 issue, page 31).

- ITA is in the process of outsourcing its accounting operations and financial system support services to the Department of the Interior. Since Interior's Federal Financial System meets all relevant federal requirements, this outsourcing should help correct the four remaining material weaknesses.

In addition, the firm reported that because these corrective actions were not fully implemented during FY 1998, many of the deficiencies noted in FY 1997 remain. Although a Chief Financial Officer and a Deputy were appointed, ITA was still unable to produce auditable financial statements, and material internal control weaknesses continued to exist. In addition, except for transferring sufficient cash to fund the voluntary foreign service national separation pay accrual, ITA continued to be noncompliant with certain laws and regulations.

We commend ITA for its efforts to correct its material weaknesses and encourage continued implementation of these corrective actions. However, constant oversight is still needed. The mid-year conversion to Interior's Federal Financial System is especially critical as the conversion process will be complex and difficult. *(Financial Statements Audits Division: FSC-10866-9-0001)*



Better Management and Coordination Needed to Improve Export Promotion

The OIG conducted a review of the Department's export promotion efforts, focusing on the effectiveness of ITA, as the lead Commerce agency, in managing its export promotion programs and operations, and its involvement with other departmental units and other federal agencies to expand trade opportunities for U.S. businesses.

We found that ITA has accomplished a great deal in the area of export promotion. Among the steps ITA is taking are (1) establishing a government-wide strategy for export promotion services, (2) providing U.S. firms with a greater awareness of export opportunities, and (3) offering improved services and support at its domestic and overseas offices. However, our review disclosed several issues regarding ITA's internal structure and the guidance and direction provided by its senior managers that warrant management attention:

- **Periodic voids in leadership and general direction.** Too often in the past, the Under Secretary position has been vacant and the Deputy Under Secretary has filled in, in effect performing two jobs.

- **Fragmented approach to providing export promotion services.** ITA's organizational structure has encouraged a fragmented, often duplicative approach to providing support to U.S. firms. Senior officials have indicated that they recognize the need to make changes in this area.

- **Inadequate integration of US&FCS's domestic and overseas personnel.** Although US&FCS's decision to better integrate its staff was sound, initial efforts to implement the decision were not well planned and did not adequately consider employees' concerns. The agency's recently revised approach addresses many of those concerns, but may not go far enough.

- **Limited use of US&FCS's "Teams Initiative."** This initiative, which involves teams of trade specialists located throughout the United States who work to promote exports for a particular industry or a specific geographic region, has the potential to be an important tool in improving ITA's effectiveness and coordination worldwide. But teams could be more effective if they routinely leveraged staff resources from other ITA units to address specific trade-related issues. The initiative would also benefit from having its manager located at Commerce headquarters.

- **Ineffective information technology strategies for both in-house operations and service delivery.** US&FCS does not (1) have a permanent office with leadership responsibilities in information technology, (2) have an adequate system development methodology, or (3) adequately plan or budget for its information technology modernization. Efforts underway to upgrade the agency's office automation infrastructure, improve client tracking, and develop a standard system platform for sharing information appear promising, but more work is needed.

We also found problems related to ITA's interaction within the Department on export promotion activities. Although ITA appears to be working well with BXA and the National Marine Fisheries Service (NMFS), the bureau needs to better coordinate with (1) EDA to prioritize and maximize the use of its grant funds for export promotion efforts, (2) MBDA to provide more effective export promotion services to its clients throughout the nation, and (3) NTIA to promote international market access and trade opportunities for U.S. telecommunications companies. In addition, NIST should continue to work closely with ITA in furthering Commerce's efforts to help developing nations shape their industry standards.

In an earlier report on export promotion (see March 1993 issue, page 28), we expressed concerns about inadequate governmentwide interagency coordination. Since then, ITA has improved interagency coordination through the Trade Promotion Coordinating Committee (TPCC), which includes senior-level representatives from 20 federal agencies, and has established a TPCC Secretariat to provide a point of contact for federal or private sector parties. We found, however, that there was often inadequate cooperation among the various TPCC agencies operating at overseas posts, which can result in missed trade opportunities, inefficient operations, and overlap and duplication.

Among our recommendations were that ITA (1) refine and implement its reorganization plan and, as appropriate, revise its policies to redefine the roles and responsibilities of the agency and its components in relation to exporters' needs, (2) designate a permanent office that has the necessary capabilities and authority to address bureauwide information technology issues, (3) seek to strengthen the role of the TPCC as a tool to encourage greater government cooperation and coordination on trade issues, (4) periodically evaluate the integration initiative to ensure that it is delivering the desired results, and (5) ensure that the Teams Initiative includes, where appropriate, industry and country specialists from other ITA units. We also made recommendations to both ITA and senior officials at those Commerce agencies—EDA, MBDA, and NTIA—with which better coordination is needed.

ITA generally agreed with our recommendations. *(Office of Inspections and Program Evaluations: IPE-9904)*

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

STATEMENT OF

JOSEPH F. SACHS
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SBA'S EXPORT TRADE ASSISTANCE PARTNERSHIP

BEFORE THE
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS
U.S. HOUSE OF REPRESENTATIVES

SEPTEMBER 9, 1999

Federal Recycling Program Printed on Recycled Paper

Good afternoon, Mr.Chairman. Thank you for inviting me here today to speak about the U.S. Export Assistance Centers (USEACs), the recent GAO report on the USEACs, and particularly our newest export development program, the Export Trade Assistance Partnership (E-TAP). My name is Joseph F. Sachs, and I have been the Director of the USEAC in Long Beach, California since the USEAC pilot began there in January 1994.

The General Accounting Office (GAO) report mentioned E-TAP as a "promising new program." We agree. That's why we are attempting to expand the program nationwide. The concept is simple: target small businesses who are ready-to-export but have not; teach them how to do it; hold their hands while they do; follow-up with a trade show or trade event overseas; and support them with financing when the overseas orders come in. We refer to this as the SBA Export Continuum: education, technical assistance, risk management and financing. But the key to E-TAP's success is the commitment of SBA and its partners to continuous mentoring throughout the process.

Typically, programs for new-to-export companies offer a series of seminars to educate small firms on the various aspects of exporting. Most of these programs either fall short of success or, more commonly, cannot measure their success due to little if any follow-up after the company completes the seminar. The E-TAP program is different in that it ensures mentoring of the E-TAP participants through every stage necessary to become export-ready. The success of the program is in its simplicity -- resource partners

offer information and training in their respective areas of expertise. Another difference E-TAP offers is that, working as a group, the resource partners are more effective by being able to offer *seamless* delivery and mentoring services, something too time-consuming to offer separately.

We began this program about five years ago in Seattle, Washington with SBA and a local Small Business Development Company (SBDC) participating. Building on that success, we introduced the program into the USEACs as they opened. We found that the USEACs were ideal locations for the program because the co-located federal partners were already on board, and most USEACs are located where there are SBDCs capable of offering high-quality counseling services for new-to-export companies. Our participation and location in the USEACs also afforded us regular access to other partners well-suited for the program, including SBA's Service Corp of Retired Executives (SCORE), freight forwarders, international attorneys, insurance brokers, World Trade Centers, international trade associations and District Export Councils (DECs). Although each of these groups came to the program with its own distinct goals and agendas, each has found the program beneficial. The success of each E-TAP graduating company is a success for which each service provider can justifiably claim credit.

Despite limited funding for E-TAP, SBA has been working to expand the program nationwide. This year, active E-TAP programs are operating in almost half of the 19 USEACs, representing over 230 companies getting export support as participants in E-TAP programs.

SBA's participation as a partner at all 19 USEACs has afforded SBA an improved environment to deliver our trade finance services. Volume in the Export Working Capital program has grown from 79 loans worth $28 million in 1994 to 412 loans worth $159 million in 1998, a growth in loan portfolio of over 450 percent. This represents an estimated $350 million supported by this program in export sales volume. The Export Working Capital program is also one of the best performing finance programs at SBA. The overall charge off rate during this period is less than 1 percent. We are continuing to improve the program and are developing new, more efficient finance products to meet the evolving needs of the small business community. Because small businesses continue to be the fastest growing sector for U.S. exports, SBA must continue to adapt to meet small business needs.

Attached to my written testimony is a more detailed description of the E-TAP program. Thank you for the opportunity to be here today. I would be happy to respond to any questions you may have.

SBA's ETAP: Export Trade Assistance Partnership Program

As a member of the Trade Promotion Coordinating Committee (TPCC), the US Small Business Administration (SBA) has played a significant role as the voice for small business in developing the strategic plan to provide effective trade promotion and finance programs for the small business community. In 1992, small firms with fewer than 500 employees constituted 99.2% of exporting wholesalers, and 92.6% of exporting manufacturers, while accounting for only 29.5% of the value of US exports. Clearly, small business is a TPCC priority and the Export Trade Assistance Partnership (ETAP) program is an effective tool to provide better, more effective, and measurable assistance to small businesses who wish to enter global markets.

The ETAP process starts by utilizing the US Export Assistance Center (USEAC) and SBDC service delivery network which is generally the appropriate vehicle for this initiative. USEACs were created by the TPCC to deliver a full range of integrated services provided by the US Government to businesses ready-to-export, in partnership with state and local resources. The specific mission of the USEACs is to facilitate exports by delivering a seamless, comprehensive array of export counseling and trade finance services to US firms.

USEACs are located in 19 major cities, with additional coverage provided by 85 additional Export Assistance Centers across the United States. Representatives from the Department of Commerce, Small Business Administration, Export-Import Bank, Foreign Agricultural Service of the Department of Agriculture, Agency for International Development and International Small Business Development Centers staff the USEACs. Partnerships with state and local trade organizations have flourished with the USEAC expansion to improve the quality of services offered to a greater number of export-ready firms.

To assist more small business owners become export-ready, the SBA designed the Export Trade Assistance Partnership program. This full service, step-by-step process was developed and piloted by the Washington State SBA and Small Business Development Center (SBDC) partnership in 1993. With some revision, ETAP has now become a flexible model for international trade service providers to use in helping the small, export-capable business access global markets.

A key role in counseling and training small businesses that are less knowledgeable about the exporting process is filled by the Small Business Development Centers. Together with the USEACs, International SBDCs work to help small businesses become export-ready. Located in 970 communities throughout the United States, SBDCs are a cooperative effort among the SBA, the academic community, the private sector, and state and local governments, and they provide managerial and technical assistance as well as education and training to the small business community. SBDC International Trade Specialists research international markets, help clients prepare international business plans, choose appropriate market entry strategies, understand trade finance, and use export finance assistance programs, such as SBA's Export Working Capital Program (EWCP).

ETAP ELEMENTS

The ETAP program consists of four distinct segments: partnership, training, counseling, and international trade shows or missions. By combining these four elements, ETAP nationwide formalizes the creation of local international trade resource teams, while it leverages results that are cost-effective, substantial and quantifiable. A decentralized approach allows the program to remain flexible enough to meet the individual needs of various geographic areas around the country while providing a consistent framework for international trade assistance for small businesses nationwide.

PARTNERSHIPS - An Advisory Board

A successful ETAP program leverages the strengths of the individual resources available in the host region. An advisory board comprised of representatives of the various public and private sector organizations should be established, as a first step of the process. All potential resources need to be identified and invited to participate in designing a program that will effectively prepare SMEs with international potential in becoming export-ready.

Advisory board members do not have to be actively engaged in exporting to participate; they do, however, need to understand the importance of international trade and be willing to support and contribute to the program. Resource partners will vary according to the international trade infrastructure available in the host region. Advisory board members could include:

US Small Business Administration (SBA): With its mandate to develop the ETAP program as a national initiative, SBA could coordinate and evaluate the ETAP program in cooperation with the USEAC site director. SBA can help to make the Export Working Capital Program available to qualifying firms.

Small Business Development Centers (SBDC) or International Trade Centers (if available): Providing in-depth technical and managerial assistance to SMEs plus conducting appropriate market research for the participants are the linchpins of the SBDC services. SBDCs can help in recruiting and screening the companies to participate in the program as well as organizing the training agenda and counseling the participants concurrently with the program.

US Department of Commerce (USDOC): Extensive market research, foreign contacts and a wide array of other export marketing services are available through USDOC's Foreign Commercial Service offices overseas. The ETAP program should utilize this market research, the technical expertise of USDOC trade specialists (where available), and other services such as its Agent/Distributor Search (ADS), Matchmaker Program, International Company Profile and Gold Key Services.

District Export Councils (DEC): The 51 DECs nationwide combine the talents of over 1600 exporters and private and public export service providers who volunteer their time to share specialized expertise to SMEs interested in exporting. DEC members help firms in their local

communities move from their first international business plan to their first export sale by assisting in training and mentoring programs.

US Department of Agriculture's Foreign Agriculture Service (FAS)/State Departments of Agriculture: FAS representatives are now being assigned to USEACs. State agricultural representatives in many areas have resources to promote agricultural exports and may organize trade missions to select foreign countries. Many also have a trade lead database for matching potential foreign buyers with agricultural producers in the state.

State and Local Economic Development Departments/International Trade Offices (where available): Most states, and some cities, have some resources for promoting exports from their particular state to specific international markets. State international trade specialists usually actively recruit and represent firms on overseas trade shows and missions. Some offer training in how to prepare for and participate in overseas promotional events and can establish links for ETAP participants to international markets in which they have foreign representation.

Federal, State, and Local Financial Institutions/Representatives: Representatives for Ex-Im Bank, state and local lending institutions, and non-bank lenders who provide trade finance are important resources for the ETAP program's success. Obtaining export working capital is often the barrier that prevents the transaction from happening; financing experts are necessary to analyze the participants' financial status and to teach them about the intricacies of international trade financing.

Service Corps of Retired Executives (SCORE): The volunteers with international trade experience could do initial site visits to evaluate the export potential of ETAP applicants. They could serve as follow-on mentors or points of contact for the individual firms during the ETAP program and during the follow-up phase.

Minority Business Development Centers (MBDC): Some MBDCs have international expertise and interest. Most can provide valuable assistance in the preparation of market studies, business plans and loan packages for a fee.

World Trade Centers/World Trade Associations (where available): Both organizations generally offer international trade training courses, including the World Trade Center Institute's nationally recognized certificate program. Services vary according to location; members in both organizations can serve as mentors and assist in hands-on training in the ETAP program.

Industry Trade Associations/Chambers of Commerce: These organizations can provide valuable information about targeted industry sectors and demographic data specific to the geographic area. Members and staff can be instrumental in promoting the program and in monitoring foreign market conditions for a chosen industry.

State Universities and Community Colleges: Those institutions of higher learning which have an international business program can provide invaluable guidance and assistance in developing

and delivering an appropriate training curriculum for the ETAP program. These resources can also access international trade experts for presenting essential parts of the training program.

RECRUITMENT, COMMITMENT, & TRAINING

A key component of the ETAP program is the customized, intensive international trade training designed to help the small businesses not only discover international opportunities appropriate for their companies, but also be able to accurately assess the market potential of various countries around the world. The ideal program would take a new-to-export or export-ready company through the various steps of exporting, including international market research, developing a suitable market entry strategy, and an international business plan, export financing, logistics, shipping and distribution, transportation and documentation, plus international business culture and protocol.

The adaptability of the ETAP program encourages a targeted approach, tailored for each individual class; programs can have an industry focus or be general in nature, depending on the needs of the local community. The Advisory Board should determine the appropriate focus and assist in recruiting applicants in the targeted sector.

Interested companies will complete an application form that should be a useful tool in selecting the final participants. Firms should be export-capable, and ideally, export-ready. However, the ETAP program can also prepare the new-to-export companies to use USDOC services and qualify for export financing programs offered by SBA and Eximbank upon completion of the entire process. Finalists will be asked to meet with Advisory Board members (SBDC and USEAC staff, DEC and SCORE members) to complete an assessment of the company's export readiness. Companies not selected will be invited to participate in later ETAP programs.

The ideal class size is approximately 15 participants, who are required to pay a fee for the training. This fee covers expenses of the training sessions and encourages the company to complete the entire course, which may last up to a year. This commitment is vital to the success of the program. Upon completion of the training, the fee, or a portion thereof, could be applied toward the final step in the program, attending an international trade event.

The actual training modules should be consistent, regardless of the focus, with examples coming from the targeted industry, if possible. The flexibility of the ETAP program is most apparent in the training component; some communities will support a yearlong program of monthly meetings of one-and-a-half to two hours. Others would prefer weekly full-day sessions, while others may choose 6 half-day programs, equaling at least 18-24 hours of intensive, practical international trade training. Some programs are offered in conjunction with institutions of higher learning and involve even more hours of instruction. Several suggested formats and agendas are attached.

COUNSELING & MENTORING

The counseling component of the ETAP program goes hand-in-hand with the training. Each participant in the ETAP program is assigned a counselor and/or a mentor from the partnership Advisory Board to provide one-on-one, specialized assistance to the firm as it develops its international business plan and designs its appropriate market entry strategy. Other technical assistance for dealing with firm-specific issues such as product labeling requirements, intellectual property protection, foreign competition, and others, will also be provided to the participants by their mentor or counselor. Other resources, including private consultants, will be utilized or recommended as necessary. All client information is kept strictly confidential.

USEACs and SBDCs provide counseling to ready-to-export and new-to-export companies, respectively, as part of daily operations. DEC members, on the other hand, have agreed to act as mentors to exporting firms when they accepted the appointment to the DEC from the Secretary of Commerce. Therefore, this assignment should be viewed as a long-term relationship between the ETAP participant and the various partners to help in overcoming any and all hurdles faced by the company in entering new markets.

In addition to working with the company simultaneously with the ETAP program, the counselor/mentor should be expected to provide follow-up assistance to the company for up to five years after the completion of the ETAP training. This will enable the partnership to collect valuable impact data and hopefully, success stories and sales and loan information to aid in evaluating the success of the program.

An alternative for providing long-term follow-up assistance is the establishment of a monthly or quarterly ETAP Roundtable comprised of graduates and ETAP partners. The roundtable format allows greater interaction and exchange among the members, who are international trade specialists and corporate executives with personal responsibility for exporting.

This type of forum has enabled participants in the past become more knowledgeable and proactive in managing and expanding their international operations by increasing their export "know-how." They learn from their colleagues and from invited experts about how other companies approach and solve real-world exporting problems; they acquire specific, current information, market awareness and fresh ideas to use in their own companies.

The ETAP Roundtable serves as an excellent venue for disseminating information about new agency programs. The development of strong relationships among the members over time, results in enhanced used of government services. Such public-private sector relationships are vital in collecting important impact data used in evaluating the effectiveness of the program.

TRADE SHOWS & TRADE MISSIONS

The fourth component of the ETAP program is participation in an international trade show or a trade mission. The trade event should be far enough in the future to allow for the completion of the first three parts of the ETAP program.

An appropriate event can be a domestic trade show with foreign buyers, a trade mission, an overseas trade show, or at the very least, a catalog show. Coordination with DOC, SBA, USDA, and other TPCC-sponsored trade events is key; in fact, the target of a specific ETAP program could be participation in a specific event with the training tailored to preparing the companies for doing business in that particular country.

After participating in the trade event, the firm will work with the assigned trade specialist and/or mentor to follow-up on trade leads and orders taken at the event. Export credit insurance, pre-export financing/working capital, and medium-and long-term loans through SBA and Eximbank will assist the small business to complete transactions and sales as quickly as possible.

ETAP program graduates will be followed for approximately five years through site visits, phone interviews and continuing one-on-one counseling as needed. Participants will be required to provide impact data, such as the number of jobs created or retained, increased sales, loans obtained, etc. and to be used in success stories as part of the follow-up process.

Target Markets for ETAP Participants:

The TPCC has previously researched and selected Big Emerging Markets (BEMs) and Big Emerging Sectors (BESs) to focus market development efforts of the US Government to assist businesses in exporting. The National Trade Data Bank (NTDB) provides the best, most current, and most reliable international trade market research available. By using this and other Federally sponsored trade information research, ETAP programs can focus on those industry sectors with the best potential in specific markets to achieve the maximum results for the export-capable participants.

ETAP CHECKLIST

STEP 1: Establish local Advisory Board comprised of all interested partners located in the geographical area.

STEP 2: Choose the appropriate focus (industry, event, target market) for the ETAP program, drawing on the needs and strengths of the business community being served.

STEP 3: Plan marketing strategy and develop brochure and promotional materials.

STEP 4: Prepare budget for entire process, including trade mission/trade show. Determine if corporate sponsors will be needed and what price must be charged to participate.

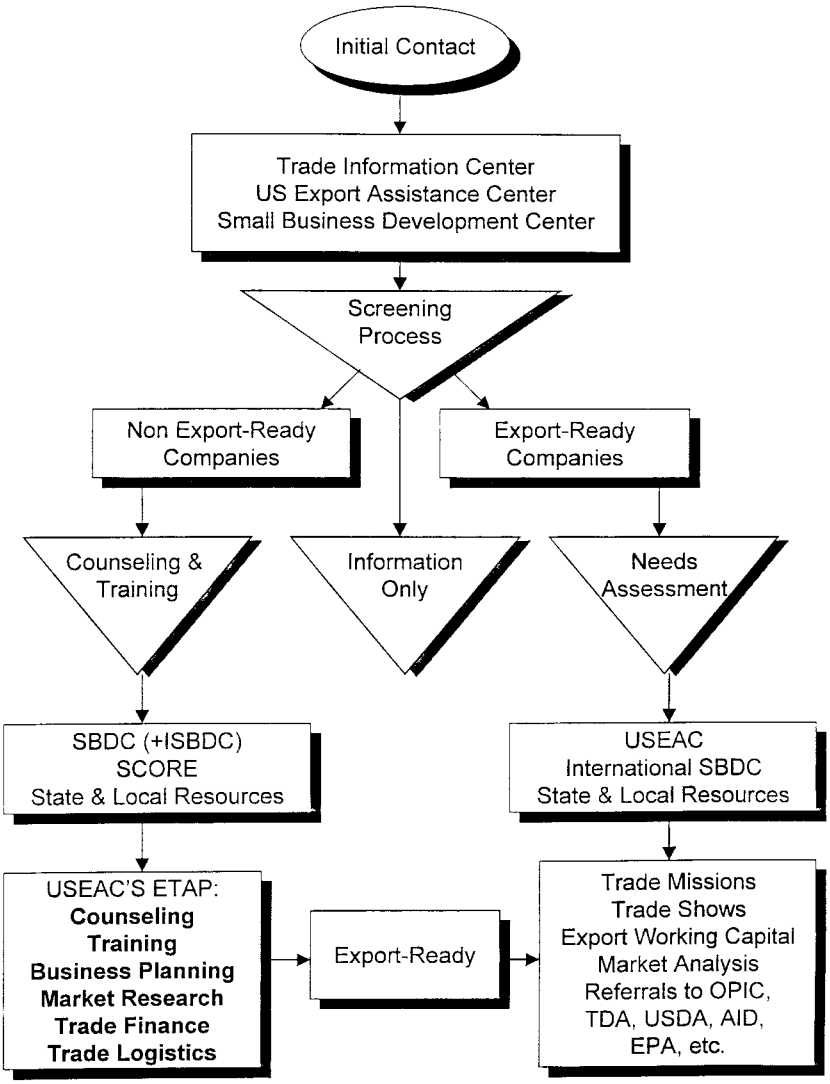
STEP 5: Market the ETAP program to the community, region, and/or target market.

STEP 6: Review applications; conduct site visit to the top candidates to determine level of export readiness.

STEP 7: Select participants, limiting class size to approximately 10-15.

STEP 8: Begin training program.

STEP 9: Prepare for trade mission, trade fair participation, or catalog show.

STEP 10: Periodic follow-up from trade event to assess sales and job impact.

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