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FOREIGN COMMERCE

GOVERNMENT

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HEARINGS BEFORE THE COMMITTEE ON COMMERCE UNITED STATES SENATE EIGHTY-SEVENTH CONGRESS

FIRST SESSION

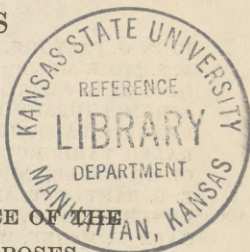
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S. 1729

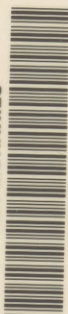
A BILL TO PROMOTE THE FOREIGN COMMERCE OF THE
UNITED STATES, AND FOR RELATED PURPOSES

JUNE 21, 22, AND JULY 11, 13, 21, 24, 1961

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FORNIGN COMMERCE

HEARINGS

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UNITED STATES SENATE

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FOREIGN COMMERCE

WEDNESDAY, JUNE 21, 1961

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 5110, New Senate Office Building, the Honorable Clair Engle presiding.

Senator ENGLE. The committee will be in order for the consideration of the bill S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes.

(S. 1729 follows:)

[S. 1729, 87th Cong., 1st sess.]

A BILL To promote the foreign commerce of the United States, and for related purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Foreign Commerce Act of 1961".

STATEMENT OF POLICY AND PURPOSE

SEC. 2. It is the sense of the Congress that the peace and economic well-being of the peoples of the world increasingly depends on wider recognition, both in principle and practice, of the interdependence of men upon an expanding exchange of goods and services. The Congress finds and declares that foreign trade represents a strong and vital element in the economic leadership of the United States among free nations. It is the purpose of this Act—

(a) to provide a coordinated and augmented program of Government action to improve and expand the services necessary to assist United States manufacturers and businessmen in developing export markets;

(b) to establish, within the Department of Commerce, a professional career service to promote foreign commerce and to assist United States businessmen, both in the United States and abroad, in finding export opportunities and in expediting sales transactions;

(c) to authorize such reorganization within the Department of Commerce as is necessary to facilitate the flow of trade information between exporters in the United States and importers abroad;

(d) to improve the competitive position of United States exporters through the establishment of a comprehensive program for the insurance of export credits against political and commercial risks.

TITLE I—EXPANSION OF SERVICES FOR EXPORT PROMOTION

SEC. 101. In furtherance of the policy and purpose of this Act, the Secretary of Commerce is authorized and directed—

(1) to undertake a program for the expansion of the number, and the variety of export services provided by the Department of Commerce and the field offices of the Department of Commerce in the commercial centers of the United States;

(2) to undertake, in consultation and cooperation with the Secretary of State, a program for the expansion of the number and variety of services provided to American and foreign exporters and importers by commercial attachés abroad;

(3) to cause such notices or advertisements to be placed in the informational media of this country as he determines will be most helpful to domestic manufacturers and businessmen in maximizing their foreign trade opportunities and in utilizing the commercial services available to them through the various departments and agencies of the Government;

(4) to establish, or make arrangements for, in consultation and cooperation with the Secretary of State, exhibits of goods produced in the United States, in major foreign trade areas, when he determines this to be advisable in the furtherance of the policy and purposes of this Act;

(5) to establish in Washington, District of Columbia, and in selected cities of the United States, permanent centers for the exhibition of goods produced in the United States, and for this purpose to acquire land, construct suitable buildings, and arrange with American industries for the exhibition of their goods;

(6) to establish, in consultation and cooperation with the Secretary of State, a limited number of pilot projects in foreign market areas to provide warehousing and other permanent basic support facilities to aid the export operations of United States businessmen and manufacturers, and to provide for the eventual sale of such facilities to United States business concerns, or to associations of such concerns as authorized by the Act of April 10, 1918 (the "Webb-Pomerene Act" (40 Stat. 516)), for private operation;

(7) to expand the trade mission program and, in consultations and cooperation with the Secretary of State, to send abroad joint governmental and private enterprise groups for the purpose of promoting trade;

(8) to establish, in consultation and cooperation with the Secretary of State, and the Director of the United States Information Agency, United States trade information centers in the principal commercial centers and trade fairs of the world, whenever he determines this to be advisable in the furtherance of the policy and purpose of this Act;

(9) in consultation and cooperation with the Secretary of State (A) to undertake such market surveys and other commercial research in foreign market areas as he determines to be most useful for the expansion of United States export trade, and for such purpose to contract with such private firms or organizations, either domestic or foreign, as he may determine without regard to section 3709 of the Revised Statutes of the United States or any other provision of law requiring competitive bidding; (B) to disseminate the results of such surveys and research in such form as may be most useful; and (C) to cause such notices or advertisements to be placed in the informational media of other countries as he determines will be most helpful in making known to manufacturers and businessmen the facilities available to them through the Foreign Commerce Corps and the Department of Commerce for the purchase of American products or the sale of their own products to American importers;

(10) to compile, edit, and publish in English and such other languages as deemed necessary, a suitable periodic journal or magazine containing developments in American industry and advertisements of established American individuals, firms, or business organizations on a paid basis and to make such journal or magazine available without charge to foreign firms, individuals, and business organizations as a means of publicizing business opportunities and to attract foreign nationals to the services and facilities available through the Foreign Commerce Corps and the Department of Commerce;

(11) to expand, as he may determine, the facilities of the Department of Commerce for the promotion of trade fairs (including floating exhibits of United States export commodities) and for increasing the participation of United States business concerns in international trade fairs;

(12) to make such organizational changes within the Department of Commerce and to effect such communications and operational liaison between the Bureau of Foreign Commerce, the Business and Defense Services Administration, other divisions of the Department of Commerce, the field offices of the Department of Commerce in the United States, and the Foreign Commerce Corps, as the Secretary considers necessary to directly link domestic producers with markets abroad and to expedite the flow of information between exporters or potential exporters in the United States and buyers abroad; and

(13) to organize and conduct, as determined appropriate, export promotion conferences or seminars in the major commercial centers of the United States, and through use of speakers, films, and other media, to advise businessmen of trade opportunities and of conditions in foreign countries relevant to trade promotion.

TITLE II—EXPANSION OF SERVICES BY SMALL BUSINESS ADMINISTRATION

SEC. 201. (a) In furtherance of the policy and purpose of this Act there is hereby established in the Small Business Administration an Office of Liaison with the Department of Commerce. The Liaison Office shall be headed by a Liaison Officer to be appointed by the Administrator of the Small Business Administration. The Liaison Officer shall have the rank of, and receive compensation at the rate provided by law for, Deputy Administrators of the Small Business Administration. In close cooperation with the Secretary of Commerce, such Administrator is authorized, through such Liaison Office—

(1) to assign personnel to the Department of Commerce field offices in the United States for duties directly related to expanding the opportunities and facilities for the participation of small businesses in foreign commerce;

(2) when requested by the Secretary of Commerce, to undertake a program for the expansion of the number and the variety of export services provided by regional and branch offices of the Small Business Administration;

(3) to cause such notices or advertisements to be placed in the informational media of this country as he determines will be most helpful to small business in maximizing its foreign trade opportunities and in utilizing the commercial services available to it through the Department of Commerce and other departments and agencies of the Government;

(4) to represent, when requested by the Secretary of Commerce and the Secretary of State, the interests of the small businesses of the United States at international commercial treaty and other trade negotiations in which the United States Government participates, and on interagency committees, boards, or other organizations established within the executive branch to deal with foreign-trade matters;

(5) in close coordination with the Department of Commerce, to disseminate trade information for the purpose of aiding small businesses in developing and expanding their exports; and

(6) to encourage and assist small businesses in forming associations as authorized under the Webb-Pomerene Act (40 Stat. 516).

(b) Section 4(b) of the Small Business Act, as amended (15 U.S.C. 633(b)), is amended by striking the word "three" in the final sentence of such subsection and inserting in lieu thereof the word "five".

TITLE III—FOREIGN COMMERCE CORPS

SEC. 301. To effectuate the carrying out of the purposes of this Act, the Secretary of Commerce is authorized and directed to establish within the Bureau of Foreign Commerce a career service to be known as the "Foreign Commerce Corps of the United States" (hereinafter referred to as the "Corps").

SEC. 302. The Secretary of Commerce is authorized to prescribe regulations governing the Corps; to appoint personnel, and, with the concurrence of the Secretary of State, to assign such personnel to service abroad, and to rotate such personnel between duty abroad and duty in the Bureau of Foreign Commerce or duty directly related to export promotion in the field offices of the Department of Commerce in the United States.

SEC. 303. Professional staff members of the Corps shall have the designation of Foreign Commerce Officer. Officers or employees assigned or appointed to a post abroad pursuant to this title shall have the designation of Commercial Attaché, Commercial Officer, Commercial Counselor, or Minister, or such other titles or designations as are jointly agreed to by the Secretary of State and the Secretary of Commerce.

SEC. 304. Upon the request of the Secretary of Commerce, the Secretary of State shall regularly and officially attach the officers or employees of the Corps to the diplomatic mission or other Foreign Service posts of the United States

in the country in which such officers or employees are assigned by the Secretary of Commerce, and shall obtain for them diplomatic privileges and immunities and afford diplomatic status equivalent to those enjoyed by Foreign Service personnel of comparable rank and salary.

SEC. 305. The Secretary of Commerce is authorized to prescribe training programs, to establish a Foreign Commerce Institute or other training facilities within the Department of Commerce, and to contract with universities in the United States or abroad, for training members of the Corps.

SEC. 306. The provisions of section 602(d), 603, 604, 605, and 606 of the Act of August 28, 1954 (the Agricultural Act of 1954) (68 Stat. 908), shall apply to the members of the Corps and their functions in the same manner such provisions apply to agricultural attachés and their functions, except that in applying such provisions to the Corps (1) the Secretary of Commerce shall have the authority given to the Secretary of Agriculture with respect to agricultural attachés, and (2) wherever such provisions refer to agriculture they shall be deemed to refer to commerce.

SEC. 307. For the current fiscal year so much of the unexpended balances of appropriations, allocations, and other funds employed by the Department of State in connection with the same functions authorized in this title, as are determined by the Director of the Bureau of the Budget or by appropriation or other law, shall be available to the Secretary of Commerce for the purposes of this title, and there are authorized to be appropriated to the Department of Commerce such additional amounts as may be necessary for the purposes of this title.

TITLE IV—EXPORT CREDIT GUARANTEES

SEC. 401. The Export-Import Bank Act of 1945, as amended (12 U.S.C. 635), is amended by:

(1) striking out subsection (c) of section 2 and inserting in lieu thereof the following:

“(c) (1) The Export-Import Bank of Washington, in furtherance of its objects and purposes under this Act, is authorized and empowered to guarantee, insure, and reinsure against risks of loss arising in connection with export transactions.

“(2) The Bank shall, to the fullest extent possible, utilize the services of insurance companies, financial institutions, or other private enterprises, or groups thereof in the issuance and operations of such guarantees and for this purpose the Bank may make contracts or agreements for the issuance of such guarantees, insurance and/or reinsurance with insurance companies, financial institutions, or others, or groups thereof, and may employ or contract with any of the same: to act as its agent for the issuance of such insurance; to provide specialized technical services of underwriting such insurance; to collect and disseminate credit risk information; and, to adjust any claims arising thereunder, subject to the further provisions of this section.

“(3) The Bank shall—

“(a) make such guarantees, insurance, or reinsurance available on a non-preferential basis assuring participating membership and free access of all qualified insurance companies, financial institutions, or groups thereof to any central credit clearing house or coordinating agency which the Bank may engage as its agent;

“(b) make guarantees against both political and commercial risks available to exporters or financial institutions in their own communities, at one place, without requiring in each instance direct correspondence or communication between exporters or financial institutions and the Bank;

“(c) make guarantees applicable to the export of goods and related services, including the dollar and other currency, costs of a complete installation, facility, or project when such installation, facility, or project is an integral part of a contract which includes the export of goods;

“(d) establish procedures designed in all respects to assist American exporters and contractors in effective competitive bidding; and

(e) publish and make public the current policy and procedures applicable to export credit insurance.

“(4) The Bank is authorized to determine the maximum amount of the total contract price for goods and related services which may be insured; to determine premium fees or charges; to determine the effective duration of insurance policies; to determine the aggregate amount of political and/or commercial risk guarantees which may be outstanding at any one time; and to establish such operating and reserve funds, within the limits of the existing capital and reserves

of the Bank, as may be necessary: *Provided*, That the Bank shall endeavor to make the program as self-supporting as may be possible; to make the guarantees competitive in all respects with the credit guarantee or insurance facilities offered by foreign governments or their agencies, and to include in any report submitted to the Congress under section 307 of this Act a complete and separate summary of operations under this subsection including, whenever practicable, an evaluation of such operations in terms of programs of a similar nature which are being carried out by other countries doing major export business.

"(5) The Bank is authorized to modify from time to time the terms and conditions of insurance against political and commercial risks: *Provided*, That the terms of political risk insurance shall be on a country basis and shall be uniformly applicable to all exports to that foreign country.

"(6) When any payment is made to any person or corporation pursuant to a guaranty as hereinbefore described, the currency, credits, or other assets on account of which such payment is made shall become the property of the United States Government, and the United States Government shall be subrogated to any right, title, claim, or cause of action existing in connection therewith.

"(7) As used in this Act—

"(a) the word 'goods' shall mean any raw materials or manufactured goods exported from the United States;

"(b) the word 'services' shall mean all services by exporters ordinarily resident in the United States rendered in foreign countries, and shall include (A) the rendering of engineering, architectural, other technical services, the rental of leasehold property, and the licensing of intangible property rights, including patents, trademarks, and copyrights, and (B) the dollar and other currency costs of equipment, materials, and total installed costs of a complete project, facility, or installation;

"(c) the words 'political risk' shall mean the risk of loss caused, in whole or part, by the occurrence of any action by a foreign government interfering with the completion of and/or the payment for the export of goods or services as defined herein in accordance with the lawful terms agreed upon by the parties thereto, within a period of time stipulated in the guaranty contract;

"(d) the words 'commercial risk' shall mean the risk of loss within the period of time stipulated, caused by the occurrence of the insolvency or protracted default of the buyer; failure or refusal to accept and pay for goods or services which have been exported or contracted for export, or any other cause of loss not being within the control of the exporter or the buyer which arises for events occurring outside the United States and which is not normally insurable with insurers covering other than export credit risks and which was not caused by a political risk"; and

(2) striking from section 306 thereof the date "June 30, 1963" and inserting in lieu thereof "June 30, 1968".

TITLE V—USE OF FOREIGN CURRENCIES

SEC. 501. Section 104 of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1705), is amended (1) by striking out the colon at the end of paragraph (r) and inserting in lieu thereof a semicolon, and (2) by adding after paragraph (r) a new paragraph as follows:

"(s) For financing in such amounts as may be specified from time to time in appropriation Acts, programs and projects to be undertaken in foreign countries in accordance with the Foreign Commerce Act of 1961."

TITLE VI—AUTHORIZATION OF APPROPRIATIONS

SEC. 601. There are hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

Senator ENGLE. The Chair would like to read a statement left by the chairman of the committee, Senator Magnuson.

The committee this morning is commencing hearings on S. 1729, a bill to promote the foreign commerce of the United States. Today and tomorrow we will hear from members of the American business community who will, I hope, give us the benefit of their first-hand knowledge of the foreign trade situation.

At a later time, an opportunity to testify will be given to the Government agencies involved.

S. 1729 is, in part, an outgrowth of the special staff study prepared for this committee during the last Congress on "The United States and World Trade—Challenges and Opportunities." This study amply demonstrated that the United States is losing ground in its position as a trading nation. That is not to say that our exports have been decreasing dollarwise, but that our share of the world's market is decreasing.

We have in recent years noted the rapid advances made by the Western European nations and Japan in developing export markets, many of which were formerly served by our own industries. We are also aware of the efforts of the Sino-Soviet bloc to foster increased trade, particularly with the underdeveloped nations, for political as well as economic purposes. It is, therefore, a matter of necessity for the Congress to look into the need for promotion of our own foreign commerce.

The bill proposes a number of changes in the Government's present approach toward fostering increased international trade. In addition to increasing services for the promotion of exports in the Department of State and the Department of Commerce, S. 1729 also provides for an expansion of services by the Small Business Administration, the facilitation of export credit guarantees through the Export-Import Bank, and the establishment of a Foreign Commerce Corps within the Department of Commerce.

The institution of the changes proposed in this bill would not be a cureall to our export problems. In the final analysis, the success of this program depends solely upon our business community. We cannot open your markets for you, or sell your products overseas. American business must respond to the international challenge with an aggressive program to recapture lost markets and open new areas for our products. For that reason I am happy to see that our first witnesses are from the business world.

S. 1729 was introduced by Senator Engle, and was cosponsored by Senators Bartlett, McGee, Smathers, and myself from this committee, and in addition by Senators Humphrey, Randolph, and Gruening. I am unable to sit with the committee today and tomorrow because I must chair Appropriations hearings for the independent agencies. I have therefore asked Senator Engle to serve as chairman for these hearings.

I would like to state, in addition, that Senator Engle has spent considerable time and effort in developing this bill, and that he is undoubtedly the Senate's greatest advocate of increased trade promotion.

The present chairman very much appreciates the chairman's remarks on that subject.

Senator Magnuson, incidentally, is against a deadline with reference to his appropriation bill. Senator Schoeppel is here and will leave shortly for the purpose of attending those hearings.

The Chair has a very short statement and will then recognize Senator Schoeppel for a short statement.

As Senator Magnuson stated, the witnesses today and tomorrow are from various sections of the business community. The committee intends to conduct further hearings on this bill, and will invite those Government agencies concerned to express their views. We want to hear from all interested parties, and get every point of view. The business witnesses were invited to appear first, since they have for the past several years requested such legislation, and are most directly involved with this matter.

I believe there is a need for this legislation, and that the time is short in which we can act. Our neighbors are not sitting idly by while we deliberate on the merits of the various approaches to increas-

ing trade. I hope that we are at least all starting with the basic premise that we, as a Nation, must take action to insure our share of the world markets.

Before hearing from the first witness, I want to insert into the record a short statement outlining the provisions of this bill, and also a letter received from the Whirlpool Corp., St. Joseph, Mich., dated June 15, 1961, addressed to Senator Magnuson.

(The statement is as follows:)

S. 1729 has been designed for one purpose—to bring the facilities of the U.S. Government for aiding American businessmen in expanding their exports up to a par with the facilities offered by other governments in aiding their businessmen.

In brief, the major provisions of this bill would:

(1) provide a program of Government action to improve and expand the services necessary to assist U.S. manufacturers and businessmen in developing export markets;

(2) establish within the Department of Commerce a professional career service to promote foreign commerce and to assist U.S. businessmen, both in the United States and abroad, in finding export opportunities and in expediting sales transactions. It would transfer our commercial attachés from the operational jurisdiction of the Department of State to the Department of Commerce;

(3) authorize such reorganization within the Department of Commerce as is necessary to speed up the flow of trade information and clearances between, for example, an exporter in Los Angeles, or Duluth, or New York City, and a potential importer in Bombay, or Buenos Aires, or London; and

(4) remove one of the present major obstacles to effective competition by establishing a comprehensive program to insure export credits against both commercial and political risks.

It is hardly necessary to reenumerate the reasons why expanded trade promotion facilities are vital to the national interest. In the short run it is the most readily available means of narrowing the balance-of-payments gap. This deficit amounted to about \$3.4 billion in 1958 and approximately \$3.8 billion in 1959 and 1960. But beyond this, we have to recognize that a healthy expanding American economy and full employment is dependent upon expanding trade. This applies not only to the present distressed areas in the United States but to every American community. In particular the economic vitality of our port cities is dependent upon a thriving trade. In a larger sense, the economic interests of the United States are tied to an expanding world economy; and an expanding world economy cannot exist without expanding world trade. There is also one reason for expanding our trade which is often overlooked. We have recognized the very important stake the United States has in speeding up the growth of the countries of Asia, Africa, and Latin America. It is necessary and appropriate that we assist this economic growth through grants, loans, and technical assistance. But if the objective of accelerating their growth is a valid objective then we should not neglect the powerful force private enterprise can play in contributing to the natural processes of growth. American private enterprise can best be geared to the processes of economic development in these countries through the medium of expanded trade. Private investment is the counterpart of expanded trade.

It is to be regretted that our balance-of-payments gap has not been getting any narrower. It is to be regretted that the U.S. share of the market abroad has been steadily declining, and that the United States, the leader of the free world, has apparently not given the support to exporters which is provided by the governments of most European countries and Japan. During the last 2 years this committee has heard from hundreds of American businessmen, both in the United States and abroad, urging the adoption in one form or another of the measures contained in this bill.

(Full text of letter follows:)

WHIRLPOOL CORP.,
St. Joseph, Mich., June 15, 1961.

Re S. 1729.

HON. WARREN G. MAGNUSON,
Chairman, Senate Committee on Interstate and Foreign Commerce,
U.S. Senate, Washington, D.C.

DEAR CHAIRMAN MAGNUSON: I am very pleased to be able to respond to your invitation to express an opinion with respect to the importance of prompt legislative action on the principles embodied in S. 1729.

The American business community—as, indeed, the U.S. economy—requires every possible type of governmental assistance in order to expand the volume of our exports. Without a continued acceleration in the export volume you know full well that we shall be unable to afford our foreign and military aid programs and that our balance of payments will continue at deficits.

The U.S. business community has an imperative need for a vastly informed commercial attaché service in our embassies. To an enormous extent, the ability of U.S. business to remain competitive turns on the flow of informed, up-to-the-minute economic intelligence furnished by the commercial officers of the Foreign Service. To be fully helpful, we must have at our overseas posts first-rate men with an intimate knowledge of U.S. foreign business who possess the local contacts, and who have knowledge of the host country in economic depth. Our leading world competitors all have a career commercial service where these attributes exist—and function effectively.

We stand in urgent need of a vastly improved and expanded export-credit-guarantee system so that U.S. business can meet its competition on equal terms. As you well know, all of the major world trading nations provide an effective export-credit-guarantee system for their overseas traders and investors. Plainly, this country cannot afford to do less—if we intend to meet the lethal competition of West Europe and Japan.

My kindest regards and best wishes.

Faithfully yours,

PETER R. NEHEMKIS, Jr.

Senator ENGLE. The Chair recognizes the Senator from Kansas.

Senator SCHOEPEL. Thank you, Mr. Chairman.

I want to say, before this hearing gets underway, that this is an excellent piece of legislation as I view it, and these hearings should bring out something which it is very important for us to have before us.

I would like to note that several of the members of this committee, including myself, Senator Smathers, and Senator Scott, joined Senator Sparkman and some other members of the Small Business Committee of the Senate in presenting somewhat similar legislation to the Senate earlier this year.

Mr. Chairman, that bill is S. 1379, and it was referred to the Committee on Banking and Currency, rather than to this committee. However, I believe we ought to have it before us in these hearings. So I ask that a copy of S. 1379 be inserted in the record, or certainly be made a part of the record, so that we might have the comparison on these measures, because obviously, as I view it, some such legislation as essential as S. 1729, or included in S. 1379, will be before us for consideration.

Senator ENGLE. The Chair agrees with that. The bill will be made a part of the record for the information of the committee. We would not transgress on the jurisdiction of the Committee on Banking and Currency, but it is important to have before us the provisions of their bill.

(S. 1379 follows:)

[S. 1379, 87th Cong., 1st sess.]

A BILL To encourage and promote the expansion through private enterprise of domestic exports in world markets

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "National Export Policy Act of 1961".

POLICY AND PURPOSE

SEC. 2. The Congress finds and declares that foreign trade represents a strong and vital element in the economic leadership of the United States in the free world. Further, the expansion of exports by and through private enterprise is the most effective and positive answer to the current balance of payments deficit experienced by the United States, and is assuming increasing importance to the economic welfare of this Nation. The largest potential for the rapid expansion of exports resides in opening to smaller manufacturers and businessmen in the United States the great opportunities which exist in foreign markets for United States products and services. It is the purpose of this Act to provide a coordinated and augmented program of Government action to assist United States manufacturers and businessmen to recognize and to develop export markets.

COUNCIL FOR EXPORT PROMOTION

SEC. 3. (a) There is hereby established a Council for Export Promotion (hereinafter referred to as the "Council") which shall consist of the following members, all ex officio: The Under Secretary of Commerce, who shall serve as Chairman of the Council; the Under Secretary of State; the Under Secretary of Agriculture; the Under Secretary of the Treasury; the President of the Export-Import Bank of Washington; the Director of the International Cooperation Administration; the Chairman of the Council of Economic Advisers; and the Administrator of the Small Business Administration.

(b) The Council shall appoint an Advisory Committee on Export Promotion which shall consist of nine members as follows: Two members who are representative of manufacturing industry; two members who are representative of the field of export operations; two members who are experts in international economics and business administration; one member who is representative of the field of banking and finance; one member who is representative of labor; and one member who is representative of agriculture. From the members appointed to such committee the Council shall designate a chairman. Such committee shall meet at the call of the chairman, and shall, from time to time, make recommendations to the Council relative to the carrying out of its duties under this section. The members of such committee shall receive no compensation by reason of their service on the committee, but, while away from their homes or regular places of business may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5 of the Administrative Expenses Act of 1946 (5 U.S.C. 73b-2) for the persons in the Government service intermittently.

(c) It shall be the duty and function of the Council—

(1) to coordinate the export services provided to domestic concerns by the various departments and agencies of the Government which are engaged in the promotion of the export trade of the United States, and to promote the speedy and direct extension of the services of such departments and agencies to domestic concerns engaged in the export trade;

(2) to provide for the implementation of pertinent recommendations of the interagency export promotion task force established in 1959, and to review, revise, and augment such recommendations from time to time in the light of changing conditions and needs; and

(3) to undertake a study of the services provided by the Government which are designed to assist or encourage export operations of United States businessmen and manufacturers. For the purpose of carrying out such study the Council may contract with such private groups or organizations as it shall determine without regard to section 3709 of the Revised Statutes of the United States (41 U.S.C. 5) or any other provision of law requiring competitive bidding. Such study shall include specific recommendations for such legislative and administrative action as may be deemed necessary in furtherance of the policy and purpose of this Act.

(d) The Council is authorized to utilize the facilities, information, and personnel of the departments and agencies of the executive branch of the Government which it deems necessary to carry out its duties under this Act; and each such department and agency is authorized to furnish such facilities, information, and personnel to the Council upon request made by the Chairman.

(e) The Council shall make a report to the Congress, not later than January 31 of each year, on its operations under this section setting forth therein such recommendations as it deems advisable in furtherance of the policy and purpose of this Act.

AMENDMENT TO EXPORT-IMPORT BANK ACT OF 1945

SEC. 4. Section 2 of the Export-Import Bank Act of 1945, as amended (12 U.S.C. 635), is amended by adding at the end thereof a new subsection as follows:

"(d) (1) In furtherance of the policy and purpose of the National Export Policy Act of 1961, the Export-Import Bank of Washington is authorized, in addition to and not in replacement of any other authority conferred by this Act, to guarantee, in the manner and to the extent herein specified, the payment of money due residents of the United States (including corporations, partnerships, and associations organized under the laws of the United States or of any State) from foreign customers for the export-sale of goods or commodities.

"(2) Guarantees under this subsection may be made directly or in participation with others, on such terms and conditions as the Board of Directors of the Bank shall prescribe, subject to the following conditions:

"(A) the person or firm in whose behalf the guarantee is made shall retain a substantial interest (as determined by the Board) in the discharge by his foreign customer of the terms of the contract of sale;

"(B) in guaranteeing against the risk of nonpayment by reason of (i) the imposition by a foreign government of an exchange block or other exchange control, or (ii) war, hostilities, rebellion, or civil commotion, preventing the foreign purchaser from transferring funds to the United States to make payment in accordance with the contract of sale, or preventing the delivery of goods, the guarantee assumed by the Bank shall not extend to more than 90 per centum of the total contract price;

"(C) in guaranteeing against the risk of nonpayment for any reason other than the reasons specified in paragraph (B), the guarantee assumed by the Bank shall not extend to more than 85 per centum of the total contract price;

"(D) the aggregate amount of guarantees outstanding at any one time under this subsection shall not exceed \$500,000,000; and

"(E) the terms of coverage of guarantees issued hereunder and the fees or charges required in connection therewith shall be established from time to time by the Board of Directors of the Bank with a view to making such guarantees available on a short- and medium-term basis, insofar as practicable, to domestic exporters of all types of goods or commodities on reasonable terms and with a minimum of delay.

"(3) In carrying out the provisions of this subsection the President of the Bank shall, in consultation and cooperation with the Secretary of State, consult with representatives of other countries doing a major export business with respect to export-guarantee programs which are in effect in such countries. The President of the Bank shall also consult with representatives of the private banking and insurance industries and with exporters to assure that the program to be established pursuant to this subsection shall utilize to the utmost extent practicable the facilities of private financial institutions, and that export credit guarantees may be made available to exporters in their own communities, at one place, without requiring in each instance direct correspondence or communication between the exporter and the Bank.

"(4) The Bank shall include in any report submitted to the Congress under section 9 of this Act a complete and detailed summary of operations under this subsection including, whenever practicable, an evaluation of such operations in terms of programs of a similar nature which are being carried out by other countries doing major export business.

"(5) As used in this subsection—

"(A) the term 'State' means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, or any possession of the United States; and

"(B) the term 'contract price' includes any insurance, freight, or other charge paid or to be paid by the exporter, and any charge for services furnished by the exporter as an incident of an export sale."

EXPANSION OF SERVICES BY DEPARTMENT OF STATE

SEC. 5. (a) In furtherance of the policy and purpose of this Act, the Secretary of State is authorized and directed—

(1) to undertake such market surveys and other commercial research in foreign market areas as he determines to be most useful, on a long- or short-term basis, in connection with the expansion of United States export trade, and for such purpose may contract with such private firms or organizations (either domestic or foreign) as he may determine without regard to section 3709 of the Revised Statutes of the United States (41 U.S.C. 5) or any other provision of law requiring competitive bidding;

(2) to disseminate, by direct mail from the Department of State or from other departments or agencies, or by publication, the results of such surveys and research in such form as may be most useful;

(3) to cause such notices or advertisements to be placed in foreign informational media as he determines will be in furtherance of the policy and purpose of this Act, including institutional advertising of United States products and descriptions of the services and facilities available at United States embassies, consulates, or other foreign service posts; and

(4) to establish, in consultation and cooperation with the Secretary of Commerce, on a permanent basis trade information centers in the principal international trade fairs of the world, and on a temporary basis in other trade fairs, whenever he determines this to be advisable in the furtherance of the policy and purpose of this Act.

(b) Section 4154 of title 39, United States Code, is hereby amended—

(1) by striking out the word "or" at the end of subsection (b) (7);

(2) by striking out the period at the end of subsection (b) (8) and inserting in lieu thereof a semicolon followed by the word "or"; and

(3) by adding a new clause (9) to subsection (b) as follows: "(9) the results, in such form as may be most useful, of market surveys and research conducted pursuant to section 5(a) (1) of the National Export Policy Act of 1961."

EXPANSION OF SERVICES BY DEPARTMENT OF COMMERCE

SEC. 6. In furtherance of the policy and purpose of this Act, the Secretary of Commerce is authorized and directed—

(1) to undertake a program for the expansion of the number of, and the variety of export services provided by, field offices of the Department of Commerce in the commercial centers of the United States;

(2) to cause such notices or advertisements to be placed in the informational media of this country as he determines will be most helpful to domestic manufacturers and businessmen in maximizing their foreign trade opportunities and in utilizing the commercial services available to them through the various departments and agencies of the Government;

(3) to establish, in consultation and cooperation with the Secretary of State, permanent trade centers for the exhibition of goods produced in the United States, in major foreign trade centers, when he determines this to be advisable in the furtherance of the policy and purpose of this Act;

(4) to establish, in consultation and cooperation with the Secretary of State, a limited number of pilot projects in foreign market areas to provide warehousing and other permanent, basic support facilities to aid the export operations of United States businessmen and manufacturers, and to provide for the eventual sale of such facilities to United States business concerns, or to associations of such concerns as authorized by the Act of April 10, 1918 (the Webb-Pomerene Act (40 Stat. 516)), for private operation; and

(5) to increase the level of trade missions to twenty-five or more so that such missions will cover annually, biennially, or triennially, all of the important export markets of the world.

EXPANSION OF SERVICES BY SMALL BUSINESS ADMINISTRATION

SEC. 7. (a) In furtherance of the policy and purpose of this Act, there is hereby established in the Small Business Administration a division to be known as the Foreign Trade Division. The Division shall be headed by a Deputy Administrator who shall be appointed by the Administrator, and shall receive compensation at the rate provided by law for other deputy administrators of the Small Business Administration. The Administrator, acting through the Deputy Administrator in charge of the Foreign Trade Division, is authorized and directed—

(1) to undertake a program for the expansion of the number of, and the variety of export services provided by, regional and branch offices of the Small Business Administration;

(2) to cause such notices or advertisements to be placed in the informational media of this country as he determines will be most helpful to small business in maximizing its foreign trade opportunities and in utilizing the commercial services available to it through the various departments and agencies of the Government;

(3) to cooperate with the President of the Export-Import Bank of Washington, the Secretary of State, and the Secretary of Commerce in obtaining for American small businesses the full benefits of, and encouraging the fullest possible participation by American small businesses in, the programs established by sections 4, 5, and 6 of this Act, such cooperation to include, when deemed desirable by the Secretary of State and the Secretary of Commerce, the assignment of personnel of the Foreign Trade Division to permanent or temporary trade fairs and trade centers in the United States and abroad and to advise in the planning of or to accompany trade missions;

(4) to represent the interests of the smaller and independent businesses of the United States at international commercial treaty and other trade negotiations in which the United States Government participates, and on interagency committees, boards, or other organizations established within the executive branch to deal with foreign-trade matters;

(5) to revise, prepare, publish, and republish directories of private business concerns involved in various aspects of foreign trade, for the purpose of aiding small businesses to find and obtain the most competent assistance in developing and expanding their exporting operations: *Provided, however,* That publications prepared in accordance with the program authorized by this paragraph shall be sold at prices calculated to produce revenues equal to at least one-half the total cost of the program: *Provided further,* That, for the purpose of carrying out the program authorized by this paragraph, the Administrator may contract with such private groups or organizations as he shall determine to be best qualified, including but not limited to the making of grant contracts under section 7(d) of the Small Business Act, as amended (15 U.S.C. 636(d)), without regard to section 3709 of the Revised Statutes of the United States (41 U.S.C. 5) or any other provision of law requiring competitive bidding; and

(6) generally, and without any limitation by the foregoing paragraphs of this subsection, to establish, maintain, and operate a program calculated to promote the continued expansion of exports by American small business.

(b) Section 4(b) of the Small Business Act, as amended (15 U.S.C. 633 (b)), is amended by striking the word "three" in the final sentence of such subsection and inserting in lieu thereof the word "five".

USE OF FOREIGN CURRENCIES

SEC. 8. Section 104 of the Agricultural Trade Development and Assistance Act of 1954, as amended (7 U.S.C. 1704), is amended (1) by striking out the colon at the end of paragraph (r) and inserting in lieu thereof a semicolon, and (2) by adding after paragraph (r) a new paragraph as follows:

"(s) For financing, in such amounts as may be specified from time to time in appropriation Acts, programs and projects to be undertaken in foreign countries in accordance with sections 5 and 6 of the National Export Policy Act of 1961:."

AUTHORIZATION FOR APPROPRIATIONS

SEC. 9. There are hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

Senator SCHOEPPEL. I heartily agree with the chairman on that and I appreciate it. As the chairman indicated awhile ago, I am compelled to be on the Appropriations Subcommittee hearings and I ask to be excused.

Senator ENGLE. Thank you very much, Senator Schoepfel.

Our first witness today is Mr. Noah Brinson, Vice President of the American President Lines, from San Francisco, representing Mr. George Killion, who cannot be here due to some problems he has there, I understand, connected with Line difficulties.

Colonel Brinson, we will be glad to hear from you at this time.

Do you have a prepared statement?

STATEMENT OF GEORGE KILLION, PRESIDENT, AMERICAN PRESIDENT LINES, LTD., SAN FRANCISCO, CALIF., PRESENTED BY NOAH BRINSON, VICE PRESIDENT OF AMERICAN PRESIDENT LINES, LTD.

Mr. BRINSON. Thank you, Mr. Chairman. I am Noah Brinson, vice president of American President Lines, Ltd., in Washington. I appear before you today to read a statement of our president, George Killion.

Senator ENGLE. You may proceed.

Mr. BRINSON (reading):

I am George Killion, president of American President Lines, Ltd., of San Francisco, Calif. This is a U.S.-flag steamship company serving more than 20 countries of the world with five steamship services. As head of the farflung activities of this global steamship organization for the past 14 years, I have had a uniquely fortunate vantage point from which to view the foreign trade of the United States. I am also the vice chairman of the World Trade Authority of San Francisco and in that position have seen some of the promotional aspects of our foreign trade. I am appreciative of the opportunity given me to discuss with you this important legislation introduced by Senator Clair Engle of California, S. 1729.

I firmly believe that expansion of our trade with other nations of the world is essential to our survival as a free society. The struggle in the world today between the Communist bloc and the West is, as the nuclear stalemate becomes more apparent, increasingly an economic one. Mr. Khrushchev has clearly thrown down this gauntlet. Our survival will depend on our response to the challenge.

Foreign trade is a sensitive thing. To flourish it must have the proper environment—an environment that is made up of an intricate complex of interrelated elements. For a nation to be successful in the marketplaces of the world, attention must be given to all of the factors that together will lead to success. Some of these are obvious. Competitive costs and resultant prices are essential ingredients. The technical ingenuity of our management and science and the good sense and restraint of labor will be the determinants here. But our world trade development needs far more than the ability to compete on prices if it is to succeed. It needs (1) the development in U.S. producers of interest and know-how in export activity; (2) the encouragement of vigorous export marketing methods; and (3) the creation of confidence in the financial and political climate in which the export business must operate.

While we must and should rely on private initiative and enterprise to develop these elements of a foreign trade program, it is obvious that governmental participation and influence are essential. The job is too big and too important to rely solely on private resources, particularly when many of our trade adversaries do all or much of their trading through government agencies.

The legislation before this committee, S. 1729, provides for a number of sound and practical steps to be taken by the United States in foreign trade development.

I am not an exporter, a banker, nor a student of government organization. I shall not therefore undertake to make either detailed or technical comment on the careful provisions of this bill. But it might be of some aid to the committee if I were to note in a more general way some of its aspects which are encouraging to an American ship operator.

We find in our business of transporting our country's exports to foreign shores that there are a surprising number of U.S. manufacturers who have never given any serious thought to the desirability of developing an export market for their products. The bill will enable some good work to be done in this educational and developmental field by the Department of Commerce of this country.

The legislation would also put into effect some worthwhile programs intensifying our foreign marketing activity. We have always been a nation with a keen sense of salesmanship. My company's offices in foreign countries watch the sales efforts of our exporters in these markets and frequently find them falling short of the skill and determination found in domestic sales programs. This is not so much a failure of private enterprise as an inability to measure up to the enormity of the problem. The Government can and should lend a helping hand with trade missions, trade fairs and centers, and other broad-scale promotional activity.

Titles I and III in combination would seem to me to permit a direct operational line of communication between our commercial attachés abroad and the Department of Commerce here in Washington. Through the Department there would be a direct line of communication with the commerce field officers in every large city in the United States. The members of this committee are fully aware, I am sure, as to why this is important. I believe a recent Department of Commerce study confirms the observations our agents and representatives have made of the difficulties of placing orders in the United States. It works something like this, as I understand it. If a firm in Djakarta, Indonesia, for example, wants to buy a generator in the United States they go to the commercial attaché to get the names of firms, specifications, delivery price, date of delivery, and other pertinent information. In the typical situation the commercial attaché may refer them to the trade library in the Embassy. If the buyer wants more current information from the manufacturers, the commercial attaché will take this question up with the economic counselor of the Embassy. In due course a letter will go in the diplomatic pouch to the State Department here in Washington. From there it will go over to the Department of Commerce. In due course the inquiry will go out to the Commerce field offices for clearance with the manufacturer. The reply goes back to Djakarta through the same cumbersome channels. In the meantime the buyer quite probably has gone to the West Germans or the British or the Japanese where he has received prompt information and closed the sale. This bill would provide a direct operational line of communication through Department of Commerce channels linking the buyer abroad and the seller in the United States. We believe that this in itself would considerably increase American exports and, incidentally, increase the cargo to be moved on our ships.

There is a need in each country in which we are seeking to build up our trade for a clear-cut and effective single clearinghouse for U.S. trade activity in that country. The present commercial attaché arrangement is, I am told by our foreign offices, a sometimes inefficient one. This is not to say effective work has not been done under the system. The point is that by giving greater specialization to the foreign commercial representative and by providing clearer lines of operational control, this function can be much more effectively carried out.

As long as we continue to take young Foreign Service officers and assign them to the job of commercial attaché for a limited period—when these young men are naturally more interested in a career as a political affairs officer—we aren't likely to get efficient, professional trade promotion. Nor are we going to get seasoned advice and assistance to American businessmen when they are overseas.

I endorse the concept of a "Foreign Commerce Corps" and would look forward to an enhancement of the commercial service that will be rendered in foreign countries to our businessmen there.

One of the key provisions of that bill, in my view, provides a real spur to potential exporters is found in the export guarantee provision of title IV of the bill. While I am not sufficiently expert on the subject to know what the exact details of such a program should be, I am clear that its purpose is sound and that it will give your export program a real shot in the arm.

Our reports from our foreign offices indicate that sales are going to foreign suppliers because they can provide the credit insurance on terms that we have not been prepared to give. American banks are ready to finance exports if the guarantees were available. I understand that they are not now readily available.

The Export-Import Bank is a banking institution and not an insurance institution. Our competitors in Western Europe, on the other hand, grant export credit insurance on an actuarial risk basis—and I understand that to date the premiums have more than paid for the program.

If I correctly read title IV, it would take the administration out of the Export-Import Bank and put the day-to-day operations in the hands of private enterprise, relieving the bank of responsibility for detailed operations. It would make it possible for the American exporter, or the institution financing the export, to get the insurance policy covering commercial as well as political risks, quickly at his local bank or insurance company. At the same time it would leave an instrument of the Federal Government in control of policy, determination of premium rates, and country political risks.

The introduction and serious consideration of this bill by this committee is exceedingly encouraging. It shows an awareness of the vital necessity for expansion of our exports that is gratifying. I'm sure you will agree with me that when we deal with our exports, both of ideas and goods, we are at the heart of the battle for the survival of our way of life in which we are now engaged and will be for decades to come. We must not be found wanting in either our ideological nor economic export programs. This legislation is a sound step in the right direction in the field of commercial exports and is, I believe, deserving of your full support.

Senator ENGLE. Thank you very much, Colonel Brinson. We very much appreciate your appearance here.

The statement by Mr. George Killion, president of the American President Lines, because of his extensive experience in this field and the broad contacts that he has had personally and that his company has had with the business community abroad, is important. I notice the references in his statement to the evidence we have had submitted to this committee over a period of 2 years, particularly from the business people overseas in support of the major provisions of the bill. I participated in those hearings myself. The story I heard from the American businessmen confirmed the observations which Mr. Killion has made in his statement.

The same story was heard by other members of the committee in Asia, Africa, the Middle East, Latin America, and Europe.

There are a few points repeated over and over again whenever you talk to American businessmen abroad. I want to mention those.

First, the competition of European countries and Japan is getting rough. We all know that.

Second, they say that we might be able to compete with individual companies if it weren't for the fact that the governments, the ministries of trade of our competitors, were offering aids to their businessmen which our Government does not provide. In other words they are teaming up on us. We not only have to compete with their businessmen but they throw their government in behind their businessmen.

Third, they say that for practical purposes it is a waste of time to try to get any help from the U.S. commercial attachés. I know there are exceptions to that, but generally speaking that is true.

Fourth, they say that the commercial attachés spend most of their time around the Embassy on other jobs, and that they seldom mix with the business community. Even at Embassy functions the commercial attaché can't very well mix because of his low rank on the protocol totem pole. He is way down the line.

They say that even in those cases where the attaché has time to get concerned with trade promotion, they get very little satisfaction because of the cumbersome delays in getting information through the State Department.

You mentioned that, and Mr. Killion mentioned that.

Sixth, they say that time and time again American businessmen overseas complain of the difficulties they have encountered in making a sale, not because of price, nor delivery time, nor because of any superior product, but simply because the American firm cannot compete in the face of the more advantageous credit terms which are made possible by the export credit systems of their competitors. In other words we have been doing business with a cash on the barrelhead proposition whereas they are able to offer credit arrangements backed by their governments.

Our commercial attachés are frequently disgruntled by being under the thumb and at the beck and call of the economic counselor of the Embassy. They are frustrated in not being able to push U.S. exports and at the same time not being in the mainstream of the political or other economic work of the Embassy. Some of them consider their 2-year assignment as commercial attaché as a sentence to Siberia. One commercial attaché told me how far the British go. If a group of British businessmen plan to make a trip to country X they cable in advance—ask the British commercial officer to arrange a dinner for all prospective buyers in the area, so that the whole thing is “laid on” when the British businessmen arrive. The British Government, of course, doesn’t foot the bill. But this American commercial attaché told me that he might well be court martialed for insubordination if he had the temerity to try to give this type of assistance to visiting American businessmen.

We know that we have professional staff operators in various of our departments of government. Our labor attachés are responsible to the Department of Labor overseas; our Treasury attachés are responsible to the Treasury Department; our USOM officers to the Department of Defense; and U.S. information officers are responsible to the USIA. Altogether there are some 18 separate specialized agencies, all reporting operationally to the parent organization in Washington, but under the supervision of the Ambassador overseas.

Can you see any particular reason why such a specialized program as trade promotion should be taken out of the hands of specialists in the Department of Commerce and placed in the hands of young Foreign Service officers in the Department of State?

Mr. BRINSON. I see no reason at all.

Senator ENGLE. As a matter of fact you have made it very clear in the statement submitted by Mr. Killion. Very often these people regard this as sidetracking them in their effort to advance in the State Department, and feel that it does not pave the way for the kind of promotional opportunities that they would receive if they were not so engaged. Therefore their interest in the job is limited, and they are desirous of getting out of it at the earliest possible time.

We appreciate your coming before us. Please extend our appreciation to Mr. Killion.

Mr. BRINSON. Thank you, Mr. Chairman. I appreciate the opportunity of appearing before you.

Senator ENGLE. Our next witness is Mr. J. D. Morrow, chairman of the board, Joy Manufacturing Co., Pittsburgh, Pa.

Mr. Morrow, I understand that you do not have a prepared statement but will speak extemporaneously.

STATEMENT OF J. D. MORROW, CHAIRMAN OF THE BOARD, JOY MANUFACTURING CO., PITTSBURGH, PA.

Mr. MORROW. That is right.

Senator ENGLE. We will be glad to hear your testimony.

Mr. MORROW. For the record, in addition to being on the board of the Joy Manufacturing Co., I am also on the board of the Foreign Policy Association of Pittsburgh, and am chairman of the Regional Export Expansion Committee of Western Pennsylvania, of the Department of Commerce. But I speak here only for Joy Manufacturing Co.

In general, we approve of this bill.

I want particularly to refer to a statement made by the chairman with respect to it. I want to read it:

But at the same time, the Federal Government has a responsibility to provide governmental services at least equal to those being provided by our competitors. The intent of this bill, the Foreign Commerce Act of 1961, is to afford trade promotion services which will make it possible for Americans to compete on more equal terms.

That should be the cornerstone of the Government's commercial policy with regard to business overseas.

Unfortunately, it is not true throughout the Government.

This is a little off the line, apparently, but it is appropos.

These proposals for the taxation of foreign income that have been introduced before the House Ways and Means Committee have the opposite effect because they would tend to reduce the investment of American companies abroad. When it comes to getting exports, the business gentlemen, is generated not in the main office of New York, Pittsburgh, Cleveland, Chicago, St. Louis, New Orleans, or San Francisco. That business is originated out where the equipment is used. I am speaking particularly about mining and construction machinery. You do not sell the president of a big mining company in New York. You sell his operating manager on the ground, in the Andes, Philippines, South Africa, wherever it might be. He is the man responsible for the results, he decides what equipment he wants. Your job is there.

It is a striking fact that investments of American companies abroad generate an amazing amount of our exports.

I have for you here the prepared statement that I presented to the Ways and Means Committee. I would like to go to exhibit 1, page 3. You will observe there that over 10½ years of foreign trade experience of Joy Manufacturing Co., we have invested abroad \$7,471,000, we have expended, in expenses, and in foreign licenses and royalties, a total of about \$10 million more, making a total outflow of money of \$17,700,000.

Further down here you will notice that our company abroad has generated a total of \$16 million of exports, in addition to which there have been engineering fees, royalties, interests, and dividends.

So that the total inflow leaves a net balance in favor of the United States of \$150 million.

Please observe, the first line under dollar inflow in this statement, that out of \$161 million of exports, nearly \$99 million went to our own oversea manufacturing subsidiaries. I want to dwell on that for a moment.

That is the experience of every manufacturer of capital goods who has factories abroad that I know anything about. The reason is simple.

Those companies abroad are under precise instructions to keep developing markets for new products, to look around to see what additional products of the parent company they can sell there.

Additionally, a considerable fraction of the machines that are made abroad are composed of components that are shipped over from this country. Most of them could be made abroad.

Our company, and others, too, have followed a practice of insisting that foreign subsidiaries use particularly the more critical components made in this country because we have standards of quality to maintain.

Furthermore you have to have these machines standard. So that a customer, anywhere in the world, can get a repair part from any manufacturer of that machine.

For example, iron-ore loading machines in the mines of Sweden 400 miles north of the Arctic Circle can be supplied with spare parts from the United States, Great Britain, and France. They are identical. They will go into those machines and fit perfectly. That standardization is necessary. It is a means at the same time of increasing our exports from this country tremendously.

It is said that we export jobs from this country when we establish factories abroad. The contrary is the case. Actually we keep jobs here that otherwise would be lost.

I would like to have you look at the next exhibit in this statement that was made before the Ways and Means Committee, and you will see what we are up against when it comes to exports.

On the lefthand side it shows the difference in wages paid skilled labor in the United States and in other countries. On the righthand side you see the results in the prices at which identical Joy machines can be sold when they are made in other places.

For instance, here is a continuous miner for coal, made in the United States; it sells for \$105,000. Made in Great Britain, the identical machine sells for \$93,000, but 38 percent of that machine is made in the United States. The components are shipped to England.

Look on the righthand side. A B2F-211 underground hoist, the price in the United States for that machine is \$5,100. The identical machine, parts interchangeable, metallurgy the same, made at our factory in Johannesburg sells for \$2,100.

Here is a L-47 drill, made in the United States, it sells for \$610; our British company makes the identical drill for \$250 and sells for that.

The K-61 breaker, made in the United States, sells for \$505; our British company makes the identical breaker for \$200. The Atlas Co. of Sweden sells it for \$200.

Gentlemen, when we are trying to make export sales our international organization is a fine organization in that respect. It is the top of the whole Joy oversea operation entirely. It manages our foreign subsidiaries and is responsible for their sales, engineering, coordination with the parent company. At present the manufacturing vice president is the sales vice president, the chief engineer, controller, and accountant.

When they find that they can't sell the parent company product to some customer abroad, immediately they will say where else can we get it? I will give you an example.

Here is a mining company in Chile. They bought some Joy hoists a few years ago. They wanted six more of the same kind. They asked for a quotation and came back and said, "You are way out of line. Atlas Co. of Sweden is giving us a quotation on a similar hoist, we admit not quite as good but a good hoist, at just a little more than half of your price."

There is not that much difference between them. They sharpened their pencil. We couldn't get our price down any lower on the parent-company hoist. The president of the oversea company got in touch with the president of our manufacturing company in South Africa, Johannesburg. "Herbie, what kind of a price and delivery can you give Chile on six of these hoists?" The price was under the Swedish price, and he was making a good profit on it. The order went to South Africa. The American company got a Joy hoist exactly like the ones he had, but he got it from South Africa.

That is business that had already left the United States when we were up against the competition of that Swedish hoist.

I want you to look at the next exhibit in this presentation headed "Franklin Plant." That shows the effect on employment at our Franklin operation, the largest we have, of our exports from that plant to our foreign subsidiaries.

The top shows the total employment, the bottom line shows the part that export shipments play in employment there. If you look at it you will observe that the Franklin plant runs 1 day a week on exports to our oversea subsidiaries. In other words, 20 percent of our employees there would be out of work if we didn't have these oversea subsidiaries to which they were exporting components of these machines.

Senator ENGLE. What you are saying, Mr. Morrow, is this: That if we didn't have those oversea plants, we wouldn't be getting the business anyway.

Mr. MORROW. That is right.

Senator ENGLE. Because these other nations, with the kind of wage figures and other—

Mr. MORROW. And the government help.

Senator ENGLE. Would just simply take it away from us?

Mr. MORROW. Right.

Senator ENGLE. But if we put a plant overseas, and because we have it over there, we work our people 20 percent of the time supplying those oversea plants with technical know-how and other things incident to their operation; is that right?

Mr. MORROW. That is correct. In the case of some companies, Mr. Chairman, the percentage is even higher. That is what it is with us.

So that when you consider exports you have to look at the efforts that we make here in this country to ship them out. But also the organization and the facilities that you have abroad to expand your exports. And they are critical.

As I said before, the place that exports are made, where the sale is made, is in the other places of the world. They have to have an organization there to do it. Small companies in the United States can't afford such an organization. They have to rely on export managers. There are many good ones in the United States. They try to get something for themselves and they are likely to go to the Department of Commerce, and I have the greatest respect for that organization.

In Pittsburgh, for example, you go to the Department of Commerce, Bureau of Foreign Trade, with two excellent representatives who are there, well informed. But they are up against exactly the difficulties which the chairman has already mentioned.

I will give you a case in point. We had an inquiry 2 weeks ago from our Middle East manager; could he make a sale of \$300,000 on deferred payments over 3 years, and would the American Government, any part of it, insure that transaction. We do not have an answer yet to the inquiry addressed to the Export-Import Bank. That is not a criticism of the Export-Import Bank.

They are in this situation: They have to try to find out something about the credit rating of that company that wants to buy it. They don't have the information here. They have to go to work to get it.

The British, on the other hand, are in this position: If our British company wants to make an export sale where extended credit terms are involved, it is a very simple matter for them to find out about it. They simply call the guarantee department of the board of trade and say, "Will you insure an export sale of \$200,000 (or whatever it may be; 50,000 pounds) to the XYZ Co., in such-and-such a place," and get an immediate answer.

The reason is that the British have been in foreign trade for 250 years, and they have the finest credit files on prospective buyers in every country of the world that you will find anyplace. Next to them is West Germany. We don't have anything of that kind.

The Export-Import Bank is trying to build it up. Our own company relies on our foreign representatives. They come in with something of that kind and they know now that before they contact us in Pittsburgh they must get all the necessary credit information they can about this man. They get information from his bank and other businessmen, so that a good statement comes in to us before they ask for any credit.

We can take that to the Export-Import Bank. They like particularly the fact that it is endorsed by a local bank of the country in which the importer resides. They pay a good deal of attention to that. But they are not yet equipped to match what our British, West German, French, Dutch, Belgian, and Japanese Governments are doing in supporting their exporters in long-term credit, just as the chairman has said. If we are going to compete with them effectively, it is just absolutely necessary that we be put on that kind of footing. It must be done.

As to the personnel of the Department of Commerce abroad, what was said about them is exactly right. I know because I have had occasion to talk with them. Some of them are good; some are not. But they are subject to all of the disabilities that you have mentioned that detract from their capability to do something that would be really helpful and useful.

I found that I can go to banks abroad, some of them branches of American banks, and get the kind of information that I want, and it was authoritative, accurate, up to date, they knew what I wanted, and they knew how to present it. They were interested in giving it to me in London, Paris, and other places, because if we were going to be manufacturing, doing business from there, it meant exports for them. They went all out to help us in every way they could.

Our British company, French, the others, utilized the oversea foreign trade officials of their respective governments, and they are good. But there is this difference: For them it is a career, a lifetime career. A man who is in the British commercial service abroad does not regard that as an assignment to Siberia at all and he doesn't expect to come home after a year or two. He is there permanently; he expects to make it his life work; he is highly regarded; he has a position of importance and respect. We have to give other people abroad in the commercial field the same standing that they do not have today.

Another thing we need to do, we need to bring those people over here more frequently. It isn't enough for them to collect this information abroad and have it there. What we need to do is to get it in the hands of businessmen here in the United States.

I speak from our experience in the Export Expansion Committee in Pittsburgh. We have had meetings there. That I might say is an excellent committee. Just by chance I happen to be chairman of it. It is made up of men like these: A man who is in charge of all the oversea business of the Heintz Co., Westinghouse Electric, Myron Safety Appliances, Rockland Manufacturing, companies like that. We went through the list of small manufacturers in western Pennsylvania with the help of the Department of Commerce man out there in that Bureau and selected a list of 120, where the products that these men make could be exported. Not one of them was selling overseas. We sent a letter to them and asked them to attend a meeting. We talked to them about how to do exporting, how you start, where you get your information, what the opportunities are.

We got them interested. We got them asking questions. We got people started. That needs to be done all over the country. It is being done by the Regional Export Expansion Committee. In some places they are not as fortunate as we are in Pittsburgh. They do not have as effective representatives in the Department of Commerce as we have. Those two men are fine.

But you have to have this information in the hands of the people that are your prospective exporters from here.

If at a meeting of that kind we could have a representative of the Department of Commerce who spent 2 or 3 years in some area of the world that might interest these men as a prospective place to send their goods to sell, it would be tremendously helpful. He would have information that we don't have, because each one of us has information with respect to the opportunity for the sale of his particular

products. For us it will be mining machinery, construction machinery, mine safety, safety equipment of one sort or another for various uses. But none of us know what the opportunity is for sale there of other kinds of machinery except accidentally and incidentally. We need a good commercial attaché for the Department of Commerce who had the opportunities which this bill would give him. If he could come to Pittsburgh, to other places like that, and talk to these people about the opportunities in his particular area of the world for exports, it would be tremendously helpful.

I understand that in the current fiscal year the Department of Commerce has an allowance of \$5,000 to send these men around the country. It is a disgrace.

That information ought to get in the hands of the American exporters.

Senator ENGLE. I may say on that point, one time I was in San Francisco and the Bank of America had pulled all of its oversea representatives in who deal in those areas with financing of American transactions, especially those in the Far East. That group of men was the best informed group of people you could imagine coming in from these areas. As far as I am aware, nobody from the Department of Commerce ever talked to them, as they didn't have the authority to do so, and since nobody assigned them to do so.

But this bank, the Bank of America, has been very diligent in setting up its oversea operations. Since they are interested in financing business, they are very well attuned to what is going on. But, as you say, there wasn't any correlation of it that I can see. The fact of the matter is that wherever I traveled I could find out more from the banking people out in those areas, such as those representing the Bank of America, than I could from my own people in the State Department and the commercial attachés.

Mr. MORROW. That is right. You would find the same thing at the National City Bank of New York or the Chase Bank or the First National Bank of Boston. They are sorting information for us.

I was in the First National Bank one day and said to the vice president, who had lived in South America for 25 years intermittently, that we were considering a deal with a company down there. He said, "Who were you talking with?" I gave him the name of the man. He said, "They are fine people; we have known them for three generations; they are honest, reliable, responsible. You won't have any trouble; their credit is good." That is the kind of information that you need.

You can't have a representative in Brazil, for instance, or wherever it may be, cable in to us to know whether he could go ahead and make a sale safely to somebody and extend credit to them.

Senator ENGLE. Do you think this bill would get the job done in providing the type of credit information you need, since we have written into the bill guarantees by the Government covering certain types of these transactions?

Mr. MORROW. It certainly will help, Mr. Chairman. Your idea of having this material available in one place in the United States is dead right. Whether it should be in the Department of Commerce or in the Export-Import Bank, I don't know. In London it is in the Board of Trade. They have a similar arrangement in Germany.

But our British company can get an answer quickly to the question of whether they will insure a given transaction anywhere, maybe Russia or wherever it is, up to a certain amount. They have a list of these importers, these different corporations, and they have a credit maximum allowance that they will insure for each one of them.

We can take our agent any place, and he is handling not merely parent company goods but those of our subsidiaries. If he is dealing with a transaction for the British company and he is importing something for some businessman in this community who wants credit, the British company can call up the guarantee department of the Board of Trade and get an answer almost immediately. It is just a matter of looking at the fellow's credit file; yes, he is good for it; or, no, he isn't. That is the sort of service that foreign exporters have from their governments.

When you come to how we should do it with the complexity of the people that we have reporting to the different number of people that you have here, you have a bad case of divided responsibility. That is one of our troubles, and you are shooting right at it in this bill. I think it is excellent.

On the whole, there are some features of this bill that I would like to comment on briefly that I think might be improved.

There is very little that I have to criticize.

Senator ENGLE. Go right ahead. That is what we are here for.

Mr. MORROW. I will get to it in just a moment.

Senator ENGLE. Don't be reluctant about giving us the benefit of your views. We realize that no bill is a perfect piece of legislation. Usually we can improve on it.

Mr. MORROW. These are just my ideas, and they are not perfect either. I will let you have them for what they are worth.

On page 7: the Small Business Administration. Here is more division of responsibility. My comment along the side is: No, keep it all in the Department of Commerce; centralize it. You are getting one man, one organization, responsible for the results.

On page 13, paragraph (4):

The Bank is authorized to determine the maximum amount of the total contract price for goods and related services which may be insured; to determine premium fees or charges; to determine the effective duration of insurance policies; to determine the aggregate amount of political and/or commercial risk guarantees which may be outstanding at any one time—

I would insert there, "and in each foreign nation."

—and to establish such operating and reserve funds, within the limits of the existing capital and reserves of the Bank, as may be necessary: *Provided*, That the Bank shall endeavor to make the program—

You say—

as self-supporting as may be possible.

I would cut out "as may be possible"; just make it "self-supporting."

The British and the Germans do it. They don't lose money on their guarantees, because they are careful about it. Every person dealing abroad gets up against crooks and phonies of all sorts. People are honest and dishonest in every part of the world as they are here. If you go into a wholesale program of insuring all kinds of commercial risks, you are going to get stuck and lose a lot of money. It is not necessary.

Good people, people who are honest, who pay their bills, that you can depend on, that are responsible, are known to some local bank. An American representative, a commercial attaché, can find out about him if that is his business; and unless he is a fit commercial risk, we have no business of insuring him. That is not the way to build up enduring export business. We want one that is going to last, that will live.

Those are the main comments that I have on the bill, Mr. Chairman. They are very minor, I realize, and I could just as well be wrong as not.

I took the liberty of cabling a person who is extremely well acquainted with this problem, and talked to him on the telephone and asked him to give me his views on measures of this kind. I would like to read his replies into the record, if I may, because they have some criticisms there. On the whole they are illuminating.

I asked particularly as to the rates of pay of our Commerce Department people abroad compared to those of other nations. His reply to that is this:

Doubtful if commercial attachés foreign governments are paid more than U.S. counterparts. Their prestige level is higher due to the high value placed on foreign service by foreigners rather than relative remuneration of business jobs and in civil service. Their far superior knowledge of foreign countries due to education and centuries of contact therewith and similar tastes and senses of values, ability to speak foreign languages. Our greatest need is to quit moving personnel from country to country every few years, but let them make a career of a country for a lifetime. They become completely fluent with language, become thoroughly informed on taxation and local laws and know many business people. Under any circumstances professional foreign traders, both American and foreigners, work through banks and other business people rather than government personnel. The amateurs—

Get this:

The amateurs, particularly Americans, start with their embassies. Foreigners prefer to take no chances of leaks through governmental attachés. I question the value of commercial attachés of any country to season foreign traders. Their principal function is primarily education of beginners. Their economic value is marginal. Their greatest value to the States would be annual lecture tours—Bring them back here with the knowledge they have accumulated and disseminate it in this country; plant seeds. You can't expect them to stand by and raise the tree.

* * * 1 month at home apprising business groups of opportunities and needs of their respective countries would be invaluable.

Senator ENGLE. May I say, apropos of that, the bill provides that the commercial officers, after 2 or 3 years overseas, would be returned to the United States for trade promotion duties in the Bureau of Foreign Commerce in the Commerce field offices of the United States.

Mr. MORROW. I notice that.

Senator ENGLE. In other words, we would get them back here. The suggestion you make has a good point to it.

Mr. MORROW. That is exactly right.

Here is a reply to a question with regard to the guarantees.

Senator BUTLER. Before you pass to that point, may I ask you a question? I have been here just a minute.

I understand the witness to say he thought it would be a good thing for these trade attachés to stay permanently in the country where they were assigned—

Mr. MORROW. That is correct.

Senator BUTLER (continuing). And come back here periodically for a month each year to give the benefit of their wisdom to the industrial and trade people here.

Mr. MORROW. That is right.

Senator BUTLER. Whereas the bill provides that after 3 years they would be permanently brought home.

Is that true?

Mr. MORROW. I did not so understand it. I did not read it that way.

Senator BUTLER. I don't know whether I did or not. I am trying to find out.

Senator ENGLE. The intention of the bill is that they be brought back for limited periods and then sent back, rotated back into their areas.

Senator BUTLER. Into the same area, or different areas?

Senator ENGLE. I don't believe the bill spells that out. That, of course, makes the point more worthwhile that Mr. Morrow is talking about. What he is talking about is getting them back here occasionally so that we can have an exchange of information.

Mr. MORROW. That is it.

Senator ENGLE. And orient these fellows to what is going on back home, so that when they go back to where they were they will be more effectual in representing American industry. As I understand his point, that is what it is.

Mr. MORROW. That is right.

Senator ENGLE. Mr. Morrow believes that you ought to keep them in the same area because they will become experts in those areas, and the intimacy of their knowledge of the industry of the area, the opportunities of the area, the credit standing and rating of people in the businesses over there, improves with the passage of time.

Mr. MORROW. That is right.

Senator BUTLER. Let me interject this further question. It is the policy of the Department of State, I believe, to rotate these people and to bring them back periodically for a sabbatical, so that they will not become partisans of the country where they happen to be.

Do you see any danger in your suggestion that if a man goes to a country and stays there permanently that the first thing you know he becomes a part of that country and he really represents that country more than he does his own country?

Mr. MORROW. No. If he is a good American, and properly selected, I don't worry about that.

We have exactly that same situation with our own employees abroad.

Senator BUTLER. Then you think that the Department of State over the years has been wrong in pursuing that policy?

Mr. MORROW. No; I am not competent to criticize the Department of State in that respect. There may be reasons for shifting those people around that I don't know about.

Senator BUTLER. I think the reason is that they want them to be Americans, rather than to become the nationals of the country in which they would be permanently settled. I can see great danger there.

I travel a lot. I think every Member of the Congress ought to travel a lot, because you become familiar with this type of problem. I have seen people in the American Foreign Service who had been in one place so long that unconsciously they were more a part of that country than they were of the American Foreign Service.

Mr. MORROW. There would be that effect to some degree on them.

Senator BUTLER. The atmosphere rubs off on them. They get the point of view of the country where they happen to be. I think sometimes they lose sight of the American point of view.

Mr. MORROW. To a degree, that is what we want to have happen to our people.

Senator BUTLER. I don't want that to happen to my people.

Mr. MORROW. I mean this, Senator—

Senator BUTLER. That would be the worst thing that could happen. I think too much of that is going on now. I think that too many people are thinking of the interests of the foreigners, rather than getting down to the interests of Americans. I want people in the State Department and filling these positions who think American, act American, and act in the interests of America.

Mr. MORROW. I will tell you how we safeguard against that with our own foreign employees. We bring them back home frequently, maybe for a month, 6 weeks, or even 3 months, so they catch up on what is going on in the company, what is going on in the country, what competitors are doing, and so forth. They are all good Americans, even though some have been abroad 10 or 12 years in the particular location where they are.

You have to do that or they will lose touch with the parent company. We don't want them to do that. They still feel that they are a part of it, and we make certain that they do. If any one of them gets so much interested in a foreign country that he becomes a part of it, we just ease him out. We just don't keep him there any longer.

Senator BUTLER. That may work in industry, but it doesn't work in Government.

Mr. MORROW. You know a great deal more about that than I do.

Senator BUTLER. It is a little harder to ease them out than you think it is. A lot of people around here have been trying for many years to ease them out. They don't ease quickly.

Senator ENGLE. Under this bill, Senator Butler, the Secretary of Commerce would have additional discretion which you could equate to the discretion of, say, the business judgment of the Joy Co. They could change it. The idea is to duplicate pretty much what Mr. Morrow is talking about.

Mr. MORROW. I think it is. That is the way I read the bill.

I would like to read Mr. Wheeler's reply to my query about the credit guarantees. He said:

Export Credit Guarantee Department, Board of Trade, London, guarantees acceptable commercial export sales collections up to 90 percent invoice against losses, either commercial or political, for a period up to 5 years. Construction contractors such as dam or factory builders are covered just as merchandise exporters are. Other European powers have arrangements similar to Britain's agencies of various European governments coordinate practices by annual meeting under what is known as Berne agreement. British unit has large list of improved importers with preset maximum credit allowances. For instance, our Greek distributor has present current allowance of £50,000 that may be insured upon export application. Preset credit-rating feature tremendous im-

portance to exporters in letting them know where they stand in prompt execution of deals. I know of no country excepting the United States that insures fixed asset investment against political risks.

Senator BUTLER. Mr. Morrow, you do place some importance, I see, on the present tax law in connection with deferral of income?

Mr. MORROW. Very much so; yes.

Senator BUTLER. What effect would the pending amendments before the Finance Committee, as proposed by Senator Gore, have on your thinking in that line?

Mr. MORROW. I think it would be disastrous.

Senator BUTLER. They would be disastrous?

Mr. MORROW. Yes. And they would stop further investment abroad to a very large degree, particularly in underdeveloped countries.

Senator BUTLER. It is your opinion that further investment abroad and trade abroad is essential to this country?

Mr. MORROW. Yes. I personally know, Senator Butler, of proposed investments in underdeveloped countries where the plan is to go ahead, which are on the shelf until those companies find out what the Government will do about deferral and taxing of income.

Senator BUTLER. And you feel if those laws were changed this type of bill would do us no good?

Mr. MORROW. I wouldn't say it would do us no good. The effect of it would be diminished.

Senator BUTLER. Materially?

Mr. MORROW. Materially; yes.

Senator ENGLE. May I say that before you came into the hearing, Senator Butler, that Mr. Morrow had some charts in his statement which show the benefits of foreign investments overseas to the expansion of jobs in this country, which would indicate that his company worked 20 percent of its time on handling export matters which in the absence of oversea investments would not be available to him because they wouldn't have business in the first place.

Mr. MORROW. Those exports, Senator Engle, go to our manufacturing subsidiaries abroad.

Senator ENGLE. That is what I understood.

Mr. MORROW. That is where they go. If we didn't have those factories over there they wouldn't go there. They wouldn't go anywhere.

Another thing about this manufacturing that I mentioned, a foreign patent is good for only 3 years unless you start to manufacture under it. And just as soon as an American machine is exported abroad, and if it catches on and the market starts to develop there, some local manufacturer will go over it, and he can figure that he can manufacture that machine and sell it for about half of the delivered export price, and he is going to copy it unless you manufacture it under patent.

We have had this happen: A foreign government has had one of our machines copied, invited us in and said, "Here it is. We need a lot of these machines of yours. We do not have the dollar exchange to buy them. Your patent is not good here. We will have them made right here unless you arrange to do it." So we arranged to do it, getting an engineering fee on those machines, and including in them a certain percentage of components from this country. That was acceptable to them.

This matter of manufacturing abroad is partly a defensive mechanism. It is the only way we can hold on to these customers. That is true of other companies just as it is of Joy.

Senator BUTLER. You manufactured \$26 million abroad?

Mr. MORROW. Yes. It would be more than that this year.

Senator BUTLER. More than that this year.

What is that market? Is that a European market, or do you sell a part of that back here in the United States?

Mr. MORROW. No; none of them come back.

Senator BUTLER. None come back?

Mr. MORROW. None. On only one occasion, Senator Butler, did we import something from abroad, and that was during the Korean war. We could not get the steel for certain components of American mining machines. Our British company was making the identical components. We had \$100,000 worth of them shipped in here and delivered them to American customers of ours for use with this machine. They never knew the difference.

Senator BUTLER. If you could compete successfully you wouldn't mind shipping them back, would you?

Mr. MORROW. Yes; we would. If you look at those prices on that second chart you will see that we can import into the United States a number of these products that we manufacture abroad, and undersell the home factories and make a good profit on it. We don't do it because it would upset employment in our home factories. So we just don't do it. It is possible. It could be done.

Senator BUTLER. You wouldn't be in favor of imposition of quotas on manufactured products from abroad, would you?

Mr. MORROW. No. I think the freer you leave the flow of products in international trade in general, the better. As soon as you begin to set up artificial barriers in favor of American manufacturers here, you will find that foreign governments will do exactly the same thing against the import into their countries of our products.

Senator BUTLER. I am not suggesting it. I am just asking a question to get information.

Mr. MORROW. I understand. I am not in favor of it.

Senator BUTLER. Where does the breaking point arrive if American costs are pushed up to a point where we cannot compete successfully with foreign-made products?

Mr. MORROW. On a good many things we are there now. We are at that point now on a good many products.

Senator BUTLER. Then you would encourage even more manufacture abroad?

Mr. MORROW. That is correct.

Senator BUTLER. And even more expanded investment abroad.

What would be your solution to the unemployment problem here, then?

Mr. MORROW. I just hope that wages abroad will go up somewhat as they have here.

Now you are in the really difficult one. Where you have the increase in wages that we have here—and we have just signed a new contract at our Franklin plant—where the average of our skilled rate at Franklin is now \$3.08 an hour, and 81 cents in our British factory, 77 cents in our French factory, 67 in our south African plant.

Senator BUTLER. You can imagine what the effect on the economy of European countries would be if they ever become equal to ours.

Mr. MORROW. Exactly. We have pushed into a very difficult situation here. I don't have any answer for it.

One thing that we and other companies do in order to maintain export trade, we keep bringing out new products. We obsolete our old products. We say a machine—a mining machine, say—for example, has a life of 8 years, and at the end of that time either we or somebody else will bring out a better machine. We prefer to do it ourselves.

That new machine has a limited life in the export trade, too. We can export those. In spite of these high wages that we are paying, we have been able to maintain our export volume.

Senator BUTLER. Is that through increased productivity?

Mr. MORROW. No, sir.

Senator BUTLER. Better design?

Mr. MORROW. It is a little more inventiveness. We are just ahead of the other fellows on new ideas.

Senator ENGLE. Better technology, in other words.

Mr. MORROW. Better technology.

But the trouble with that is that we are educating them. They look at the machine and say, "That's a neat idea; we will copy it."

Senator BUTLER. Is your stock listed?

Mr. MORROW. Yes; it is listed on the New York Stock Exchange.

Senator COTTON. I wish you would pursue that last statement a little further.

The manufacturers abroad see your new machine by virtue of striving to keep ahead of the market in spite of high wages, and they immediately copy it.

How soon?

Mr. MORROW. They may not copy the whole machine, but they may copy some new ideas in it. It may be the use of a superior alloy steel. We have been asked to manufacture in certain countries and we have had to reply we can't do it because you do not have there at the present time the alloy steels that are necessary in these machines.

Mining machines work in restricted dimensions, and you can't jack the roof up in a mine; you have to make the machine go under it. Mining machines are subject to very, very rough usage, and if you want high productivity you have to put the best alloy steels in there in order to reduce your heights to get small dimensions in what you use in a shaft, for example.

We had a French manufacturer visit our plant and look at the drive shaft. He said, "That shaft must be very highly stressed."

I said, "It is."

"What is it made of?"

"That is a chrome-nickel-vanadium alloy steel."

He shook his head and said, "We don't have anything like that in France."

I said, "If you manufacture these machines for us in France, you have to import that from us."

That is how they catch up with us.

Senator COTTON. How long will it be before they catch up with us?

Mr. MORROW. It varies. Sometimes it's a matter of months, sometimes 2 or 3 years.

Senator COTTON. They don't have it yet?

Mr. MORROW. In India they don't. There are no high-grade alloy steels in India. If they manufactured those machines we would have to import a high proportion of the materials.

Senator COTTON. When you bring out a new machine, it is with, I assume, a twofold purpose: (1) because you would bring it out anyway in the course of progress, even if you didn't have foreign competition, and (2) to keep ahead of foreign competition you immediately make obsolete a large number of your machines that are actually in stock and unsold.

Mr. MORROW. Yes.

We don't build large stocks of mining equipment. Machines that sell from \$40,000 to \$150,000, and one for \$1,500,000, you don't build and stock; you build them to order. But we do obsolete the machine.

Here is an incident: The president of a mining company in this country went to the board of directors and asked for a million dollars to buy a Joy machine. The board said, "This is the third time you have been in here with something of this kind. Suppose we let you have it and 7 or 8 years from now Joy or somebody else brings out a machine which obsoletes all of these. Aren't our faces going to be red?"

"No, not at all. That is exactly what they will do."

"Then what will we do with these machines?"

"We will scrap them and buy new ones. These machines won't owe us anything by that time. They will have paid for themselves by that time."

That is technological progress. It does create unemployment. But somewhere in the economy it increases employment.

You have the problem of getting these people shifted to the other locations. A great deal of that has gone on in the past among the coal miners. We have a hot case of it right now in West Virginia and in some parts of Pennsylvania. But those miners down there in West Virginia don't want to do anything but mine coal. Miners from western Pennsylvania, northern West Virginia, that were displaced by machines going in, went to Akron, Canton, Cleveland, Detroit, and other places and got jobs in factories there, and learned the work. A lot of these fellows in West Virginia just want to mine coal.

Senator COTTON. Thank you, Mr. Morrow.

May I interpolate? I left another committee and hastened up here because I wanted to hear your testimony and have an opportunity to tell you that I am a neighbor of yours, living within 25 miles of Claremont, and I hope you continue to do business in Claremont, N.H.

Mr. MORROW. That is one of the best factories we have.

Senator COTTON. Good. I am glad to hear it.

Mr. MORROW. I might add, one of our competitors said:

I want to give you a piece of advice. I am glad you bought it. Somebody else might have bought that factory who didn't know the facts of life and got into a lot of trouble. The minute you walk into that place, you walk in there, set fire to that plant, burn it down. It will be a millstone around your neck.

My executive vice president and I went through the plant, went up to the executive offices, and I said, "Arthur, do we burn it down this afternoon, or do we wait until the morning?"

He said, "What do you think about it?"

I said, looking at the skills that I saw in this plant, particularly the work they are turning out on those old, old machine drills that they have, "Those skills are one of the assets of this company. I'm Scotch. I am not throwing any skills away."

He said, "I agree with you. As long as these people run the plant, we will stay here."

That was the answer given to the union when they said, "Are you going to move this business away?"

I said, "Why should we?"

He said, "I just want to know."

I said, "No, we put our money in here to make this thing go. You work for us and we will be here a long time."

Senator COTTON. We appreciate that, Mr. Morrow, and I am glad that you appreciate the skills that Yankee ingenuity produced up there.

Mr. MORROW. It is the whole community attitude up there, Senator Cotton. It is splendid.

Senator BUTLER. As reflected by a very distinguished Senator.

Senator ENGLE. Do you have any question?

Senator MORTON. I am not going to get in on this chamber of commerce meeting.

Senator ENGLE. Mr. Morrow, we very much appreciate your testimony. It was very enlightening. We are glad that you are here.

Senator MORTON. My State of Kentucky has probably as much equipment manufactured by the Joy Co. as any State in the Union.

Mr. MORROW. I think it does have, Senator Morton, that is true.

Senator ENGLE. Thank you very much, and thank you for coming.

STATEMENT OF J. D. A. MORROW, JOY MANUFACTURING CO., BEFORE WAYS AND MEANS COMMITTEE, U.S. HOUSE OF REPRESENTATIVES, JUNE 8, 1961

My name is J. D. A. Morrow. I appear for Joy Manufacturing Co., Pittsburgh, Pa. Joy chiefly builds mining and construction equipment. It has factories in New Hampshire, Pennsylvania, Ohio, Missouri, Texas, California, and Indiana.

It has manufacturing subsidiaries in Canada, Great Britain, France, South Africa, Australia, and Mexico.

In addition, it has licensees in Sweden, Germany, Italy, Spain, France, India, Japan, and Argentina and has distributors in 70 to 75 other countries of the free world.

I am chairman, finance committee, board of directors, Joy Manufacturing Co.; director, Joy International S.A., Panama (headquarters in Monte Carlo, Monaco); director, Joy-Sullivan, Ltd., Greenock, Scotland; director, Adams Express Co., New York City; director, Foreign Policy Association, Pittsburgh, Pa.; chairman, Pittsburgh Regional Export Expansion Committee, U.S. Department of Commerce.

Mr. H. R. Wheeler, president of Joy International, is here with me.

To save time, I shall not refer to all details of these proposals, but we want it clearly understood that we oppose the entire foreign income tax package, except as noted in this testimony.

A LITTLE AMERICAN COMPANY VENTURES ABROAD

I became president of Joy in 1940. It was a little company. Its total sales for that fiscal year ending September 30 were \$5 million, all in the United States. For fiscal 1957, the year I retired as chairman of the board, the company's sales outside the U.S. were \$36 million—\$10 million of exports and \$26 million of foreign manufacture. Joy exemplifies what a small company can do in developing oversea business under present tax deferral provisions.

By the end of World War II, we knew there were promising markets for our mining machinery abroad. Those markets were short of dollars, but had pounds and francs. This required the equipment to be manufactured in Great Britain and France. But Joy was small, poor, and in debt. Nevertheless, studying the corporate tax structures of different countries, we boldly went ahead. The British exports that we could generate persuaded the British Government to build and lease us a factory. We borrowed \$400,000 of working capital in London, with Bank of England approval, and without a parent company guarantee.

In France, we employed a capable, profit-nosed Frenchman on a salary and bonus based on the profits he would make, but told him he would have to finance the operation. He did so by collecting 25 percent cash in advance on the machines he sold. Using these advance payments in lieu of the profits he would have later, he employed a staff, rented and equipped offices, and was quickly in business. For a few years, we subcontracted the manufacture of Joy machines in France, until we could get our own factory.

Presently, we began exporting equipment to South Africa and Australia. Mining machines, subject to rough usage, require a constant, dependable supply of maintenance and repair parts. A factory 10,000 to 12,000 miles away would not suffice. So, we had to manufacture in Sydney and Johannesburg. The business grew so rapidly, the plants had to be enlarged again and again and more money borrowed.

All our oversea business was managed by our international division. Studying further the help that tax deferral could provide, we transformed that division into Joy International S.A., a Panama corporation, that pays no U.S. corporate income tax until it remits dividends. We made it responsible for managing our foreign subsidiaries for a fee, for the exports of all Joy products from foreign and domestic sources, and for financing our oversea companies. In the latter capacity, Joy International has loaned our foreign subsidiaries a total of \$4,200,000.

Here is an example of how a small company, without sufficient capital of its own, through tax deferral, has built up a splendid business abroad, that benefits both the United States and the entire free world.

THE BALANCE OF PAYMENTS

The President and Secretary Dillon assert that investment in American-owned factories abroad affects the U.S. balance of payments unfavorably. They are misinformed. Look at exhibit No. 1.

EXHIBIT No. 1
Transactions affecting U.S. balance of payments for 10½ years ended Mar. 31, 1961
 [Thousands of dollars]

	1951	1952	1953	1954	1955	5-year sub- total	1956	1957	1958	1959	1960	2d 5-year sub- total	6 months 1961	10½- year sub- total
Dollar outflow:														
Investments and advances to foreign subsidiaries.....	368	478	65	(270)	2,947	3,588	1,698	(13)	(147)	513	1,045	3,096	787	7,471
Foreign dollar expenses (commissions, sales promotion, engineering services, etc., salaries and expenses).....	400	655	658	759	816	3,348	982	1,026	1,145	1,439	1,407	5,999	701	10,048
Foreign licensee and royalty payments.....											58	58	135	193
Total.....	828	1,133	723	489	3,763	6,936	2,680	1,013	998	1,952	2,510	9,153	1,623	17,712
Dollar inflow:														
Export sales:														
To and through subsidiaries.....	3,224	6,752	6,331	5,827	6,969	29,103	12,739	16,597	11,626	10,731	12,044	63,737	5,843	98,683
To others.....	4,885	6,274	5,480	4,976	4,168	25,783	7,218	7,551	6,316	5,785	6,317	33,187	3,500	62,470
Total.....	8,109	13,026	11,811	10,803	11,137	54,886	19,957	24,148	17,942	16,516	18,361	96,924	9,343	161,153
Engineering fees and royalties from foreign sources:														
Foreign subsidiaries.....	36	8	181	236	237	698	341	550	457	411	740	2,469	653	3,850
Foreign licensees.....	30			65	36	131	137	277	349	283	285	1,331	115	1,577
Total.....	66	8	181	301	273	829	478	827	806	694	1,025	3,800	768	5,427
Dividends and interest from foreign subsidiaries.....		20	17	74	92	203	172	843	174	221	168	1,078	58	1,839
Total.....	8,175	13,054	12,009	11,178	11,502	55,918	20,007	25,318	18,922	17,431	19,554	101,832	10,169	167,919
Net favorable balance of payments.....	7,347	11,921	11,286	10,689	7,739	48,982	17,927	24,305	17,924	15,479	17,044	92,679	8,546	150,207
Approximate U.S. tax.....	673	1,166	1,135	1,037	1,059	5,070	1,895	2,492	1,909	1,764	2,052	10,112	1,158	16,340
Less foreign tax credit.....		6	10	38	39	93	73	220	63	140	233	729	146	968
Net tax paid.....	673	1,160	1,125	999	1,020	4,977	1,822	2,272	1,846	1,624	1,819	9,383	1,012	15,372
Retained earnings of foreign subsidiaries.....	381	807	729	544	676	3,137	1,582	1,731	1,435	817	1,233	6,798	175	10,110

This exhibit shows the dollar outflow and inflow from Joy's foreign investments over the last 10½ years. Joy invested \$7,471,000 in foreign subsidiaries, paid foreign license and royalty fees of \$193,000, and spent in commissions, engineering services, sales promotion, etc., a little over \$10 million, a total dollar outflow of \$17,712,000. The lower part of the table shows the dollar return flow of \$168 million from exports, royalties, engineering fees, and interest. Note that of \$161 million of exports, nearly \$99 million went to or through our foreign subsidiaries. You will note that a little over \$10 million of earnings have been retained abroad, to build up a net worth there of \$17,500,000. When everything is taken into consideration, Joy's foreign investments and its operations aboard over this period have returned a net balance in favor of the United States of \$150 million. In addition, please note that these operations, after foreign tax credit, in 10½ years will have paid more than \$15 million to the U.S. Government in corporate income tax, or twice Joy's dollar investment abroad.

We believe this is typical of capital goods manufacture by American subsidiaries abroad.

The surprising volume of exports to our foreign subsidiaries results first from the sale from parent factories of critical components of machines made abroad and, second, from Joy International's constant pressure on each subsidiary to import new Joy products brought out by the parent company.

Each subsidiary is entirely staffed by nationals of the Nation where located, and each is a respected, growing part of the economy of its foreign domicile. I must emphasize that without these foreign subsidiaries operating as they do, our exports would be only a fraction of what we see here.

Joy International's sales promotion and servicemen also call on all our foreign distributors, assist in training their salesmen and servicemen, call with them on their customers, and foster the sale of Joy equipment in every way possible, so that it creates much of the exports credited in exhibit No. 1 to our foreign distributors.

SOME FACTS OF INTERNATIONAL COMPETITION

Joy International promotes the export, first, of machines from the parent company, but where they are undersold by Swedish, German, Dutch, Belgian, French, British, or Italian builders, it turns to the lower-priced Joy machines made by our foreign subsidiaries. For example, in South America, customers are now buying Joy machines made in the United States, in Scotland, in France, and in South Africa. Please look at exhibit No. 2 and you see why.



Labor Costs Around The World*

(HOURLY WAGE AND FRINGE COSTS)

* THIS CHART REPRINTED FROM STEEL MAGAZINE

Joy's early entry into Foreign Manufacture...

BY SUBSIDIARIES

BRITAIN — 1947
 FRANCE — 1951
 SOUTH AFRICA — 1935
 AUSTRALIA — 1949
 CANADA — 1948

BY LICENSEES

ITALY — 1955
 SPAIN — 1958
 SWEDEN — 1955
 FRANCE — 1935
 JAPAN — 1954
 GERMANY — 1957

Helped us to maintain our position in these important foreign markets.

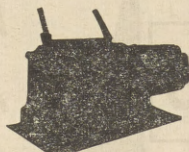
RESULT...

*Wide selling price differences
in foreign markets —*



CONTINUOUS MINER

Joy U.S.A. \$105,000
Joy Great Britain \$93,000



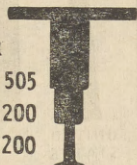
B2F-211 SLUSHER

Joy U.S.A. \$5,100
Joy South Africa \$2,100



L-47 DRILL

Joy U.S.A. \$610
Joy Great Britain \$250
Holman Great Britain \$250



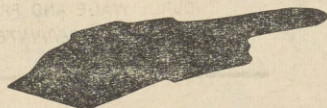
K-61 BREAKER

Joy U.S.A. \$505
Joy Great Britain \$200
Holman Great Britain \$200



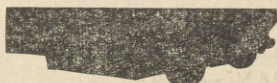
RP600 PORTABLE COMPRESSOR

Joy U.S.A. \$18,000
Joy Great Britain \$11,000
CPT Great Britain \$11,000



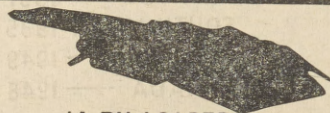
II-BU LOADER

Joy U.S.A. \$35,000
Saltzgitter Germany \$21,000



60E DIESEL SHUTTLE CAR

Joy U.S.A. \$45,000
ANF France \$34,000
Joy France \$36,000



I4-BU LOADER

Joy U.S.A. \$36,000
Mavor and Coulson
Great Britain \$18,000

Note the difference in skilled wage rates per hour paid in American factories and in the factories of our competitors abroad—\$2.75 and \$2.80 in the United States, 70 cents and 80 cents abroad. On the right side of this exhibit, you see the result in the prices at which identical Joy machines sell when made in American factories and when made in England, France, or South Africa. Our British company imports 38 percent of the components of its continuous miners from here. Now, look at the prices of a Joy underground mine hoist made here and made completely in Johannesburg—\$5,100 here, \$2,100 there; an L-47 rock drill, \$610 here \$250 when made entirely in Scotland; a 600-CF portable air compressor, \$18,000 here; \$11,000 in Great Britain; and similar examples.

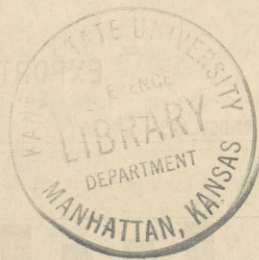
Now you see why South African Joy hoists, French Joy drills, British Joy compressors are sold to mine operators and construction contractors all over the free world.

BY MANUFACTURE ABROAD, JOY IS KEEPING JOBS HERE

It is asserted that manufacturing abroad exports jobs from the United States. This is another misstatement. As soon as growing exports of a new Joy machine into a foreign market show that sufficient demand will develop to justify making it there, some foreign manufacturer will see that he can copy that machine and sell it for half our delivered export price. Speaking generally, an American patent is good abroad for only about 3 years and no longer, unless the holder manufactures there under that patent.

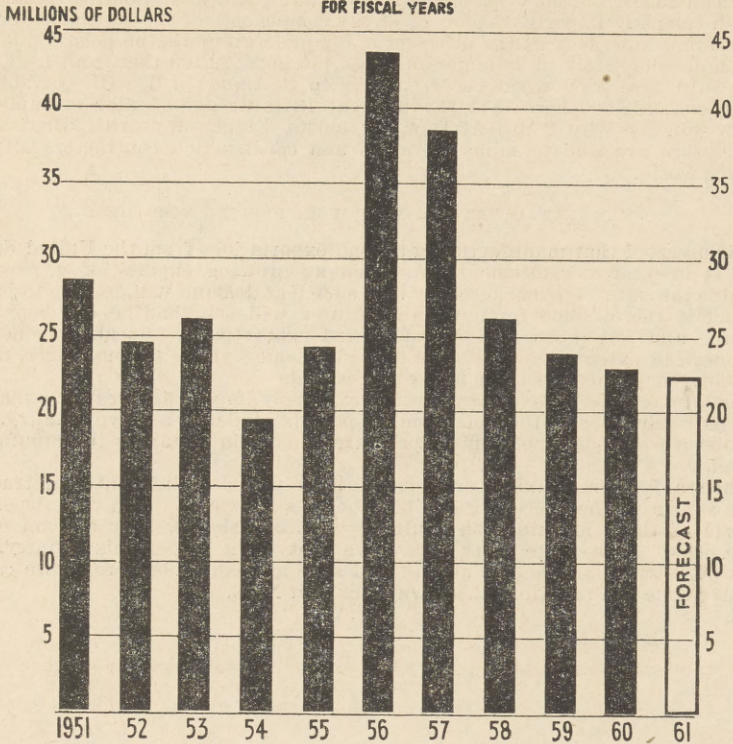
Furthermore, certain foreign governments deny import licenses for a machine or repair parts when that machine or part is made in its own country. We have been forced by such official pressure in certain instances to manufacture abroad.

When a foreign manufacturer quotes such prices in international trade as those shown in the preceding exhibit, the jobs in our factories that depend on exports of those machines have already left our shores. Joy did not export those jobs. High wage rates here have sent them out of this country. We must ourselves manufacture abroad and save as many jobs here as we can, as we have done at Franklin, Pa., shown by exhibit No. 3.

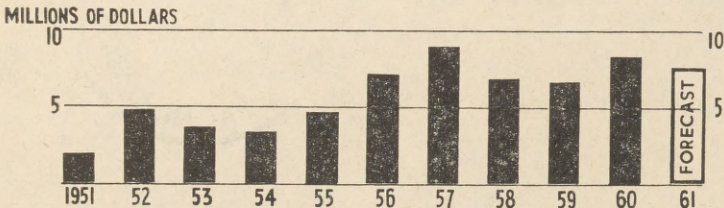


FRANKLIN PLANT

DOMESTIC SHIPMENTS



EXPORT SHIPMENTS



Here you see that exports of components from this factory to our foreign manufacturing subsidiaries provide 1 day of work per week for Franklin. Did we not have Joy factories abroad, 20 percent of our present workmen there would be idle.

THESE TAX PROPOSALS WOULD CREATE HARMFUL INEQUITIES IN CORPORATE TAXATION

The President and Secretary Dillon say that the present tax deferral is inequitable to American corporations that are not engaged in oversea operations. Look at the facts. In the manufacture of its equipment, Joy buys components and constituents from 6,000 other American companies. Only a few of them are exporters themselves, but Joy exports their products in its machines all over the free world, so they benefit from our oversea trade. We are creating jobs for their employees by our sales abroad. This is true of most makers of capital goods, who are manufacturing and exporting abroad. Discouraging that business will start a chain reaction of unemployment throughout our economy.

The tax changes proposed would create the inequity of taxing American companies with foreign manufacturing subsidiaries more heavily than companies who do not risk oversea investments and try to expand our foreign trade. Foreign subsidiaries, such as Joy's, that have debts to liquidate, will not send their earnings here to pay these taxes, so the burden will fall upon the parent company. Had these proposals been in effect in 1960, they would have increased Joy's U.S. corporate income tax by more than \$700,000. Such a proposal is contrary to the established policy of promoting U.S. foreign trade, and to all the present efforts to that end by the Department of Commerce, Department of State, of the Export-Import Bank and other agencies of the Government.

The governments of most foreign countries competing against the United States in international trade assist their interested manufacturers with tax deferral and other aid.

Thus, by increasing the taxes of U.S. parent companies, these proposals would operate to reduce the funds available for investment here at home or in underdeveloped areas.

THESE PROPOSALS DISCOURAGE INVESTMENT IN UNDERDEVELOPED AREAS

Despite the Secretary's claim that his proposals will increase investment in underdeveloped countries, their mere announcement has discouraged such investments. I personally know of specific plans for such investment that are now shelved till your committee kills these proposals.

Do not be misled by the plausible assurance that the continuance of tax deferral for certain underdeveloped areas will lead to investments there. Any country can be taken off that list at any time by the Treasury Department under the plan proposed. No thoughtful board of directors will base a major investment on such an uncertainty, added to those that already exist in every underdeveloped country.

ELIMINATION OF CERTAIN TAX-HAVEN COMPANIES WOULD HURT AMERICAN FOREIGN TRADE

Joy International SA is a tax-haven company. It is one that the proposals before you would eliminate. Joy is in complete accord with the President's desire to end tax evasion by a mere attorney's office in the Bahamas, a post office box somewhere, or by other means that perform no service of value to American international trade. But Joy International is not such a mere tax-evasion device. Through its worldwide organization of expert, experienced engineers, sales promotion representatives and servicemen, it is a most effective organization in creating Joy's very favorable balance of trade position. It is also the agency by which, through tax deferral, Joy is financing the further expansion of its oversea business. This is true of many other similar American companies.

Secretary Dillon characterizes such deferral as an interest-free loan. What if it is? Our Government is spending hundreds of millions of dollars, possibly billions, through a dozen agencies, to strengthen our economic position throughout the free world. I submit that such tax deferred companies as Joy International are one of the most practical and effective means of achieving that very objective, as shown by the record of Joy's accomplishments in this field, and this could not have been done without tax deferrals. Such companies should not be eliminated, but should be encouraged. As to mere tax evaders, you can certainly get rid of the rats without burning down the barn.

Whoever sold this foreign income tax plan to Secretary Dillon and the President evidently never was well grounded in international trade. These proposals themselves reveal the consequent worthlessness of his judgment as to their effects.

Those who, from dear-bought experience, know the difficulties, the hidden shoals and the sensitive complexities of business abroad, say to you that these proposals constitute a serious direct attack on American foreign trade and our balance-of-payments position. If the United States is to advance its economic strength at home and around the world, we must enroll thousands of small- and medium-sized companies in building up our international trade, as the Department of Commerce regional export expansion committees are trying to do. We must not discourage them. Therefore, on behalf of such companies and ourselves, we earnestly urge this committee to reject these proposals.

Senator ENGLE. The next witness is Mr. Francis X. Scafuro, of the National Coordinating Committee for Export Credit Guarantees.

I think you are also a vice president of the Bank of America, are you not?

STATEMENT OF FRANCIS X. SCAFURO, NATIONAL COORDINATING COMMITTEES FOR EXPORT GUARANTEES, NEW YORK, N.Y.

Mr. SCAFURO. That is correct. Bank of America, International, New York.

Senator ENGLE. I have maintained a partnership of sorts with the Bank of America for many years, a debtor trade relationship.

I observe that you have a statement of some length. Do you desire to read it all or would you prefer to put it in the record and summarize it?

Mr. SCAFURO. I would prefer to read it all.

Senator ENGLE. You may proceed.

Mr. SCAFURO. My name is Francis X. Scafuro, vice president, business relationships, Bank of America, International, New York. However, I appear before you today as chairman of the National Coordinating Committee for Export Credit Guarantees, and I wish to emphasize that my statement is made solely in that capacity and is not to be construed as reflecting the position or views of the Bank of America.

Your committee's introduction and serious consideration of S. 1729 is, in my view, highly significant since it shows an awareness of the serious and urgent problems confronting our export trade. The bill offers a series of effective approaches to the solution of these problems. However, my remarks will be confined to title IV, section 401 of S. 1729, which relates to export credit guarantees.

First, may I briefly outline my views as to the need for a truly comprehensive and effective system of export credit guarantees comparable to the systems available to the exporters of other major industrial nations.

The United States is the world's leading exporter and it is vital to our continuing economic health, political security, and social progress that our Government and business interests work together in promoting the sound expansion of American international trade.

In selling his products abroad, the American exporter today faces keener foreign competition than ever before. His ability to hold and to possibly expand his share of the world market, against this competition, depends in large measure upon his having ready access to the

kind of credit and financing facilities needed to support his sales effort.

The worldwide population explosion and the greatly accelerated pace of economic development in virtually every country are among the major factors which account for the need and demand for more liberal export credits and for longer payment terms. Buyers in almost every country now select their overseas supply sources according to the payment terms they offer—sometimes placing as much or more stress on this factor as on the price and quality of the product to be purchased. More and more, American producers find that, in order to secure desirable export business, they must offer to the prospective customers payment terms at least as attractive as those extended by their foreign competition. This is a well-defined trend, which will continue and which American export industry must be prepared to meet, within reasonable limits.

Because they recognize the vital importance of adequate credit and financing equipment in their export expansion programs, all other leading industrial nations have for many years provided their exporters with incentives designed to make more funds available to finance their overseas sales. One prime and major incentive of this nature takes the form of a guarantee against unforeseeable export credit losses. This insurance enables the exporter to aggressively push his export sales, with the foreknowledge that he or his financing institution will be reimbursed if the foreign buyer does not pay for the goods or services rendered within the period stipulated in the insurance contract. This insurance contract is a clear, simple document which gives the exporter and his banker a definite assurance of payment when its conditions are met.

Essentially export credit insurance is a device which, by separating the risk bearing from the lending function, paves the way for an economy of resources in the management of credit loss reserves. A banker, for example, in order to lend \$100, must use \$100 of his funds. The credit insurer, on the other hand, basing his operation on a large volume and a broad spread of risk, and on the working of the new law of averages, is able to safely guarantee a \$100 account with resources of \$5 or even less. Thus, on an insurance basis, \$1 can do the work of \$20 or more.

Of course the credit insurer will guarantee only those accounts which he believes to be creditworthy. Having his accounts insured, the exporter may then be granted more liberal accommodation by his banker, perhaps at a saving in the financing cost which may largely offset the premium paid for the insurance. In other words, a truly comprehensive and well developed export credit insurance system, such as our major competitors enjoy, provides the basic foundation, the cornerstone, upon which is built an export financing mechanism of broader scope and utility than would otherwise be possible.

Of itself, export credit insurance does not provide the funds necessary to finance overseas transactions. But, as the experience of other exporting nations clearly demonstrates, once a truly comprehensive export credit guarantee system is functioning, relaying the exporter and his banker of a substantial part of their contingent liability on discounted receivables, the problem of financing export sales is greatly simplified.

In Canada, the United Kingdom, Germany, France, and many other countries, it is required, especially when medium-term credits are involved, that the transaction first be guaranteed by the country's export credit insuring organization.

Title IV, section 401 of S. 1729 clearly recognizes the need for a system of comprehensive guarantees against commercial and political credit risks involved in the exportation of U.S. goods and services, comparable to the systems of other principal trading nations. This section of the proposed legislation also points to the desirability of securing participation by U.S. commercial insurance and banking interests in the guarantee program. These are commendable objectives with which I am in full accord. However, I would respectfully suggest that enactment of this bill would still leave unsatisfied many if not most of the major complaints voiced by a substantial number of American exporters against the existing or contemplated export credit guarantee system for the United States.

Mr. Chairman, you will recall that, in the final report to the Committee on Interstate and Foreign Commerce by the special staff on the study of U.S. foreign commerce, issued on March 14, 1961, it was stated that "perhaps the most basic of all"—complaints by exporters against the Eximbank system—

was the complaint regarding the fusion of banking and insurance facilities in the same institution, which applies the same criteria for medium term insurance as it does for direct financing. This results, according to the allegation, in overly conservative criteria and unnecessary delays.

In the bill under discussion, this conflict of function is emphasized by the limitation on the amount of insurance which may be written. Paragraph 4 provides that the Bank may—

determine the aggregate amount of political and/or commercial risk guarantees which may be outstanding at any one time

and may—

establish such operating and reserve funds within the limits of the existing capital and reserves of the Bank, as may be necessary.

This obviously ties the amount of insurance reserves to the amount of Bank loans, both of which must remain within the existing limits. To the extent that the Bank wishes to exercise its lending functions, it must restrain itself in guaranteeing against political and/or commercial risks.

The wording of S. 1729 suggests that the Eximbank is to make contracts or agreements for the issuance of its guarantees, insurance or reinsurance with insurance companies, financial institutions or others, and so forth. However, I would like to suggest that our commercial banking institutions are legally inhibited from engaging in the insurance business. Moreover, even if a number of commercial insurers can be persuaded to participate in the Eximbank guarantee program, as envisaged in this bill, it is difficult to see how this could result in our having an export credit insurance system of comparable efficiency and flexibility to the systems of the United Kingdom, Canada, France, Germany, and other major countries.

Basic to the successful operation of any export credit insuring system, is an adequately financed and competently staffed central underwriting entity, specializing in and concentrating on the evalua-

tion and insuring of the credit risks inherent in specific export transactions.

Assuming that an arrangement can be made for a number of commercial insurers to enter the export credit field, and to jointly provide the capital required for insurance on a broad national scale, as competitors they might not be disposed, or find it practicable, to pool the information accumulated from their individual credit underwriting experience. Further, if each insurance company had only a part of the total available business, the premium income from their respective shares would probably not be sufficient to enable any of them to build an organization of adequate strength and capacity to provide the kind of service needed to satisfy the Nation's export trade. Consequently, under such a fragmented system, it is unlikely that our export volume would reach its maximum potential.

Perhaps a better approach is that which is now being contemplated by a group of casualty insurers recently organized under the auspices of the Association of Casualty and Surety Companies. I have participated in the meetings of this group and have cooperated by preparing and submitting to this insurance committee a memorandum which has formed a basis for part of their discussions to date. A subcommittee of this casualty insurance group is now drafting a proposal to be submitted to the individual casualty companies for their approval and is keeping in touch with our National Coordinating Committee.

Although I believe that these casualty companies are keenly interested in cooperating with Eximbank in its guarantee program, and are disposed to share to some reasonable extent the export credit risks guaranteed under this program, I frankly believe that this pool arrangement can only be a temporary solution of the problem, and that eventually this casualty insurance group will also recognize the need for centralizing the underwriting of all export credit risks through a single specialized entity such as our committee advocates. It is my understanding that any plan of cooperation ultimately developed between the casualty group and Eximbank will at first likely be confined to the underwriting of the commercial risks involved in short term credits. This will leave the political risk and the medium term credit underwriting—with which many U.S. exporters are much more deeply concerned—directly or predominantly in the hands of Eximbank, to be administered by that institution largely on a case-by-case basis from Washington. This could well result in continued frustrations and delays in service to the trade. Continued fragmentation of the export credit guarantee system along such lines as these will leave the U.S. export trade with a credit guarantee system which is still less efficient and less effective than the systems of other major nations. Moreover there will remain the basic objection of medium-term credit guarantees being fused with medium-term financing in one and the same institution.

Mr. Chairman, as an alternative to the provisions of S. 1729, I would respectfully suggest your committee carefully study the plan developed by the National Coordinating Committee for Export Credit Guarantees which I represent at this hearing. The essential elements of that NCC plan have been embodied in H.R. 7102 and H.R. 7103 introduced in the House of Representatives on May 16 by Representatives Abraham J. Multer, of New York, and William B. Widnall, of New Jersey.

This plan was referred to on page 229 of the final report to the Committee on Interstate and Foreign Commerce, issued on March 14, 1961, to which I have already alluded. May I quote from that report:

ALTERNATIVE PROPOSALS

In any event, a number of alternatives to the present Eximbank system have recently been proposed. Among these, the most significant in terms of its breadth of support appears to be the plan advocated by the National Coordinating Committee for Export Credit Guarantees, sponsored by the International Section, New York Board of Trade, and composed of 109 exporting organizations.

This group proposed the creation of an American export credit guarantee corporation to extend export credit insurance on all types of short-, medium-, and long-term transactions. The proposed corporation would be privately financed and directed, but empowered by legislation to borrow from the U.S. Government to meet political risk liabilities should the corporation be unable, in certain circumstances, to meet them from its own loss reserves.

Proponents of the National Coordinating Committee plan point out that no insurance company and probably no combination of companies could meet the "momentary" liabilities resulting from a political action affecting all debts owed to U.S. exporters in a foreign country at a given time. The loss load would be too heavy to carry as, for example, in the recent situation in Cuba. In most instances, however, such political action in the purchasing country results in delayed payment rather than outright loss, and the Government would in due course recover.

Advantages of the NCC proposal would appear to be that the function of writing export insurance in all categories would be lodged in private industry, with only standby involvement of public resources; that exporters would have access to a single agency equipped to meet their needs in all categories of risk and types of transactions, thus simplifying and speeding up the process of obtaining insurance; and that a single agency, functioning in direct relation to appropriate Government agencies, would be in a position to establish the extensive credit information files and experienced staff required to service the insurance function on a global basis. Under the proposed plan, the U.S. Government would appoint one member of the board of directors of the corporation, with veto power over political risk guarantees.

The proposed corporation would undertake to insure directly or reinsure commercial risks with existing commercial insurance companies, thus in effect becoming a kind of clearinghouse for export credit coverage.

The Committee is not prepared to evaluate the merits of the Eximbank's position as opposed to alternative proposals. It would appear however that despite the advance made by the Bank in the past year a system of export credit insurance which offers greater simplicity and flexibility would be of material assistance to individual exporters and to the United States in expanding American exports. Since this is a prime objective of national trade policy the Committee feels that further exploration of the various alternatives should be undertaken with a view to assuring that the American exporter is equipped to meet his competitors on equal terms.

Mr. Chairman, I would like to emphasize that, although the proposed American export credits guarantee corporation would be the central vehicle for the issuance of export credit guarantees, it would in no sense constitute a monopoly because its equity ownership would be available to any and all American commercial insurance companies interested in subscribing to its stock. Moreover, the guarantee corporation would be required to spread its underwriting portfolio and premium income by offering direct participating shares or reinsurance to commercial insurance companies to not less than 90 percent of its entire volume of business. The guarantee corporation would offer to the U.S. exporter, and/or his financing institution, a single contract of guarantee to protect the insured bill, up to an agreed percentage, against all types of commercial and/or political risks. Each type of risk would be clearly defined in the insurance contract. Premium

rates and contract conditions would be: (a) competitive with those of other nations, and (b) designed to provide income sufficient to cover losses and expenses, plus a fair return on invested capital.

The guarantee corporation would pay losses from both commercial and political risks from its premium income and loss reserves. In the event that its reserve separately earmarked for political risks should prove to be not equal to meeting losses sustained from political risks—for example a general freeze of receivables in a given country by reason of a prolonged exchange transfer delay—the corporation would then be empowered to borrow the resulting deficit, within specified dollar limits, from the U.S. Treasury. Should such emergency borrowing become necessary, the corporation would pledge to the Treasury as collateral its receivables arising from the contracts on which such losses were sustained. Loans from the Treasury would be used only to cover political risk losses and the corporation would keep all its political risk funds separate and apart from its commercial risk and all other funds.

Legislation to establish and grant a Federal charter to the corporation would authorize its operation in any of the United States, would clearly specify the limitations on its use and repayment of Government loans, and would require periodic audit of its finances by the appropriate Government agency. Guarantees would be available for all types of goods and services legally exportable from the United States, provided only that the commercial credit risk met reasonable standards, and that the payment terms were consistent with the type of product sold or services rendered, with the custom of the particular industry and market and conformed to other pertinent criteria, such as the exchange situation and the economic and political conditions of the destination country at the time of the acceptance of the risk by the corporation.

The guarantee corporation's management and operating staff would be selected from qualified U.S. financial and insurance personnel experienced in international trade. Its board of directors would include representatives of American insurance companies and also of export industry, commerce, finance, and other groups experienced in and concerned with international business, plus, as already indicated, one director representing the U.S. Government. Headquarters of the organization would be in New York, the center of the Nation's international trade and finance, but central offices would also be maintained in all key centers of export industry and commerce throughout the Nation. All possible reliance would be placed on the facilities of associated or participating commercial insurers, banks, and other organizations.

The proposed guarantee corporation would place the utmost emphasis on the maintenance of policies, practices, procedures, and equipment which would encourage the largest available volume of business and an economy and efficiency of operation which would (a) contribute to scope and quality of service to both large and small business, and a range of premium rates which would enable the U.S. exporter to effectively match his competition; (b) provide associated commercial insurers, reinsurers, and brokers with a satisfactory return for their cooperation; and (c) yield a fair return on invested capital.

Mr. Chairman, I submit that establishment of the proposed guarantee corporation would relieve Eximbank of the burdensome detail of passing on and determining the insurability of the commercial credit risks involved in tens of thousands of individual export transactions. It would seem most undesirable that any arm of the U.S. Government should be directly involved in the determination of the creditworthiness of individual business firms owned and operated by citizens of other countries; or, in those cases where potential loss claims would develop, in the unsavory task of forcing collection of delinquent bills from these foreign nationals whose accounts had been insured.

On the other hand, the NCC proposal would give to Eximbank the overall control of all political risk underwriting on a global and country-by-country basis but not case by case. Moreover, Eximbank would continue to function as the U.S. Government's principal foreign lending agency. Eximbank's services in this field are, and will continue to be, needed in providing medium- and long-term financing of foreign development projects and of other types of business which our private lending institutions cannot undertake.

Mr. Chairman, may I suggest that the specific proposal developed by our national coordinating committee receive the careful and sympathetic study of your committee. Our NCC proposal is now actively supported by some 250 leading and representative U.S. firms located in 26 States. These firms have worked diligently with our committee to develop the instrument that is needed by American business and by Government to equip our export trade with a system of credit guarantees that will enable it to match the facilities of other nations and to operate with maximum efficiency.

Senator ENGLE. Senator Butler?

Senator BUTLER. Is there any company organized today—Lloyd's, for example—that would write this type of insurance?

Mr. SCAFURO. Not in the United States.

Senator BUTLER. They will not write it in the United States?

Mr. SCAFURO. There has been for the past 2 years an entity in New York called the Intercredit Agency which has been working as the export credit underwriting arm of the Continental Casualty Co.

The results of that operation I do not believe have been sufficiently satisfactory.

Senator BUTLER. They haven't been broad enough in scope?

Mr. SCAFURO. Not only has the coverage not been broad enough but they will cover only the commercial credit risks, mostly on a short term basis, whereas the need is for a comprehensive guarantee contract that covers all risks, primarily the long-term risks. This is what the American exporter needs and must have.

Senator BUTLER. It is a little unusual to have a private corporation acting under a Federal charter and having recourse to Federal funds. Isn't that a little unusual?

Mr. SCAFURO. This, of course, to begin with, is a very special situation.

Senator BUTLER. I realize that. If you could only cover political risks such as you had in Cuba and other places in the world where property has been expropriated, or something of the kind. But it is still a little bit unusual to involve the Government in the privately owned and operated corporations.

Mr. SCAFURO. I believe that there are precedents where privately owned corporations have had access to public funds, primarily in the mortgage field.

Senator BUTLER. Tell me this; what is the method adopted by France, England, Germany, and other countries that you referred to?

Mr. SCAFURO. The British of course have a totally Government-operated system, the Export Credits Guarantee Department.

Senator BUTLER. Where has that proved to be faulty?

Mr. SCAFURO. It has not proved to be faulty. I think it has done an excellent job for the British.

Senator BUTLER. Do you think that would be desirable that we have a wholly owned Government entity?

Mr. SCAFURO. No.

Senator BUTLER. The Government could create this corporation and manage it.

Mr. SCAFURO. The feeling of our committee is that private enterprise can do a much better job in this field.

Senator BUTLER. I would like to see it in the hands of private enterprise. You do have the twist where you have a Government chartered corporation, you have access to the public moneys of the United States, but yet the Government and the people have no share in the profit and very little share in the management. It is a little unusual.

Mr. SCAFURO. May I point out, however, that there are precedents and examples in Europe for the type of cooperation which we propose for effective teamwork between Government and private business in the export credit guarantee field.

The Netherlands has practically the same kind of system as suggested in our plan. There the private company may write a comprehensive contract covering both political and commercial credit risks and has the right to reinsure fully with the government the entire political risk, also the medium-term credit risk, if it so desires.

Senator BUTLER. Of course that part of your NCC program that provides that the government would meet the political risk also has the provision that the corporation itself will meet it to the extent of its ability to do so. You would certainly take into consideration the insurance of its other risks and the effect that it would have on the reserve of the company to pay a political risk before paying such a commercial credit risk. I would assume in all cases the government would have to pick up the political risk claims.

Mr. SCAFURO. May I clarify that.

Senator BUTLER. Yes. You do have as part of your plan that the corporation itself would pick up a part of the political risk.

Mr. SCAFURO. We have very clearly indicated in our plan that in collecting premiums for this insurance, the corporation, (in agreement with the government director on the corporation's board) will determine as a matter of policy the portion of the premium which is allocable to the commercial credit risk reserve and the portion allocable to of the political risk reserve. There will be these two reserve funds established on the corporation's books.

There is no question regarding whose responsibility it shall be to meet payment of commercial credit risks. That responsibility falls on the corporation and on no one else. The corporation would never

have a call or claim on the Government for the commercial credit risk losses. The corporation would also meet the payment of all political risk claims to the extent that its political risk reserve funds holds out.

Beyond that it would ask the Government for a loan, not a grant or gift, but a loan.

For this commitment or standby loan arrangement with the Government the corporation, in agreement with the Government, would pay the Government on a monthly basis a fee based on the average amount of political risk guarantees outstanding, after having made proper provision for the administration of these political risk guarantees by the private corporation. Consequently the Government could gradually be accumulating a reserve, if it wished to maintain a reserve, but such fees paid to the Government it would probably go into the general funds. Nevertheless, there would be a payment by the corporation to the Government for this commitment on the part of the Treasury.

There would be a limit within which such loans could be obtained from the Government. There would have to be predetermined limits to which the corporation could expose itself on political risks in any given country. The Government would have control of that political risk limit through its director; so that the Government would know at any one time for how much it might be involved.

Senator BUTLER. Would it have control or just have control to make a suggestion and be overruled by the Board?

Mr. SCAFURO. No. The plan as we have submitted it provides that the Government director shall have veto power over all matters pertaining to political risk guarantees. He shall have an equal voice in all other matters pertaining to the operation of the corporation.

Senator BUTLER. There is one other question and I won't pursue the subject further.

Would the formation of such a corporation encourage others to seek a charter of similar nature who may not be as skilled in the operation of the business as this corporation would be, and would not do our foreign trade any good?

Mr. SCAFURO. There are many reasons why there should not be a multiplicity of organizations in this field. The best argument that we can offer is the fact that 26 of the other major trading nations of the world have found it desirable to concentrate this kind of operation within a single organization.

There are many benefits to be derived from having knowledge of the global conditions prevailing, the total exposure on a country by country basis.

To bring the problem very forcefully to the fore, we will assume that there is a John Gonzalez in Colombia who is buying goods from a dozen American exporters. Let us assume that each of these exporters has access to a different export credit insurer. Each of the several American credit insurance companies would be recording its own experience with this particular buyer, John Gonzalez. But, only when trouble broke would the insurers become aware of the fact that there had been an overexposure with respect to this one insured risk. Thus the need for a concentration of current credit knowledge through a single insuring entity.

There is also the question as to how far we ought to go in any particular country. The best way to control the global and country by country exposure is through a single entity.

Senator BUTLER. But the thing that I get to is this: This company would have grandfather rights and you may come to the time when the charter itself would be worth more than the whole company and all of its assets because it would be an exclusive corporation created to deal in that particular field.

Mr. SCAFURO. Yes, sir.

Senator BUTLER. That leads to another question.

How would you distribute the stock? I would imagine that you would have everybody in America who would want to have some money in that type of venture. How would you say that you could get some and somebody else couldn't because you manifestly couldn't give it to everybody. Who would subscribe to the stock?

Mr. SCAFURO. To begin with, the preponderance of control in the stock should be held by the casualty insurance companies and the provisions of the law must be such that there is an open-end stock subscription investment arrangement where, on an annual basis, there might be further shares made available.

We would be opening up an area of insurance business which has been thus far untapped in the United States.

Senator BUTLER. I can see that a business such as this would be a very lucrative business. I am not a banker but I can see that much. This would be a very lucrative business and most everybody would want a piece of it. But the only people who could get it would be the insurance companies.

Mr. SCAFURO. That is not right, sir, because the proposed legislation creating the corporation provides for availability of the capital stock to subscribers other than insurance companies—manufacturers, exporters, banks, and others interested in international trade. It would take probably 5 to 20 years for us to reach the level of credit insurance coverage that the British have achieved over the last 25 or 30 years. This is going to be a slow growth and as growth occurs there will be need for more capital investment in this company; more stock would be made available.

Senator BUTLER. Wherein would a company such as this differ from the war-risk insurance carried by the Government of the United States in time of war?

Mr. SCAFURO. I would like to, if I may, complete the thought, that an arrangement would have to be made to provide that the existing stockholders, on the occasion when additional stock is offered, would have to defer to the desires of other insurance companies which have no stock but would wish to come into the corporation.

Senator BUTLER. They would have no preemptive right?

Mr. SCAFURO. No preemptive rights.

Senator BUTLER. That might stop them a little. I don't know.

Mr. SCAFURO. The more important thing, Senator, is not so much the ability to possess stock in this corporation, because the plan has been so contrived that the capital structure would be held at the lowest possible figure. Much more important is the provision in the law prescribing that the corporation must offer for reinsurance or direct participation up to 90 percent of its business. Effectively, therefore,

the real interest here is to be associated with the company as one of the participants in its business, rather than as a stockholder.

Senator BUTLER. But that opens up another field of inquiry. There is nothing to prevent a person or group of persons from forming a reinsurance corporation and taking 90 percent of the business from the people who happen to run it, who may be themselves.

Mr. SCAFURO. Of course there are many areas here, Senator, that would have to be carefully planned from a policy standpoint. That is one of the reasons why the Government director would be on this board to look after the public interest.

Senator BUTLER. He would be watching out for the public interest, and where the political risk would be involved he would have a veto. He would have nothing to do with the general management or control of the business.

Mr. SCAFURO. He would have an equal voice.

Senator BUTLER. I assume you would have 15 or 20 directors?

Mr. SCAFURO. I would venture to say—

Senator BUTLER. He would be a voice crying in the wilderness at best.

Mr. SCAFURO. I would venture to suggest that a sound recommendation from the Government director appearing in the records of a corporation subject to examination by a Government agency at the examination date might evoke some criticism if not followed through.

After all, this guarantee corporation, having a single Federal charter would have to be very wary of its privileged position; and always consider the possibility of losing its charter if it didn't act as it should in the public interest.

Senator BUTLER. Do I understand you to say that the House Committee on Interstate and Foreign Commerce has approved this plan?

Mr. SCAFURO. The Senate Committee on Interstate and Foreign Commerce—

Senator BUTLER. This committee?

Mr. SCAFURO. Did not approve it, sir, but they did make the brief—

Senator BUTLER. They recommend this plan?

Mr. SCAFURO. They felt that this was, if I may—

Senator ENGLE. You referred to that in your statement on page 7, Mr. Scafuro; starting at the bottom of page 6 and running through a part of page 7. It gives the staff report, Senator Butler, on this proposal as an alternative to the proposed legislation. But the staff report has not been accepted by the committee.

Senator BUTLER. That is what I wanted clear. It is a staff report. I have no further questions.

Senator ENGLE. Senator McGee? I understand that you want to get away.

Senator MCGEE. Yes. I have a luncheon at 12.

We stand somewhat on common ground here in that we are all unhappy with Export-Import activities in this particular field up to now. We likewise agree that we want the maximum encouragement of our export activities. Would it be fair to say that your committee would believe that the pending legislation is a substantial improvement over what we have been getting from Export-Import?

Mr. SCAFURO. I would say it is a substantial step in the right direction. But I believe that I would have to say on behalf of the members

of my committee that the plan as envisaged in S. 1729 would continue to leave a preponderance of determination of political risk underwriting in the hands of the Export-Import Bank, which would have to involve itself continually in primarily the medium term transactions. This is where the American exporter has a problem.

It is my feeling that the Export-Import Bank has done an excellent job as a banking institution and that involving it in a great multiplicity of transactions on a smaller scale might affect the excellent manner in which it has been handling some of the larger problems of development projects and credits extended for terms longer than 5 years, which are not usually digestible by the commercial banking community.

Senator McGEE. I only wanted to make sure that that which was obvious from your remarks was made abundantly clear in the reading of the record itself.

Mr. Chairman, I would like to have included in the record an article which appeared on this question in the Journal of Commerce of June 19, in which it attempts not only to summarize the projections of this committee and the Engle bill, but likewise attempts to evaluate some of the issues at stake. I ask that it be included in the record.

Senator ENGLE. Without objection it will be made a part of the record at this point.

(Article in Journal of Commerce follows:)

[From Journal of Commerce, June 19, 1961]

BANK'S SHORT-TERM PROGRAM EYED—EXPORT CREDIT GUARANTEES AIRING SET
(By John F. King, Washington Bureau)

WASHINGTON.—The Senate Commerce Committee this week takes a look at the progress made by the administration in stepping up U.S. exports.

IMPATIENT WITH DELAY

The committee starts hearings tomorrow on a bill by Senator Clair Engle (Democrat, California), to beefup promotional activities of the Commerce Department and the export credit guarantee program of the Export-Import Bank.

The credit guarantee aspect of the program will get the closest attention. The committee has become increasingly impatient with the delay in organizing the short-term credit guarantee program.

Chairman Warren G. Magnuson (Democrat, Washington) has not invited Government officials to the hearings but instead has lined up business critics who are expected to give the Bank a roasting for its alleged heel-dragging.

Ever since President Kennedy pronounced U.S. export credit facilities inadequate last February, the Bank has been groping for a system whereby private insurance companies and banks could participate in its guarantee program.

For over a year now, the Bank has offered coverage against loss on short-term transactions (up to 180 days) arising from political causes, selling policies covering some \$165 million worth of exports.

Last March, the Bank under the new administration decided to offer export credit guarantees against commercial risks. It is into this area that the Bank hoped to bring private firms' participation. The idea was that insurance companies would provide coverage against all or part of the credit risks while the Government covered the political risks.

The search for private partners, who not only would carry some of the risk but would handle the administrative aspects of collecting credit information, writing policies and collecting fees, began crystallizing last week.

INSURANCE POOL SOUGHT

After some 40 meetings through the spring with insurance and banking firms, the Bank arranged for five major casualty companies to blueprint an insurance pool similar to the old war risk pools.

The trouble is that the Export-Import Bank is suddenly in something of a hurry. While Mr. Kennedy asked for action only 4 months ago, the whole program has been under study off and on for 2 years.

In the meantime, the insurance companies—to whom the export business is something of a mystery and therefore not to be lightly plunged into—have indicated they will take a cautious approach.

The prospect of more delay makes the Export-Import Bank just that much more vulnerable to the rising criticism on Capitol Hill about bureaucratic snafus.

A secondary theme of congressional dissatisfaction with the Bank is the suspicion that it doesn't really want private companies participating in the guarantee program. The suspicion is sharpened by the opposition of the insurance industry to letting the Government enter what is felt to be a private enterprise preserve.

BANK OPPOSES BILL

It is at this point, while the export community chafes and is confused by the delays in establishing a full-coverage program, that the Senate committee opens hearings on the Engle bill. Opposed by the Bank, the bill would force the Bank into sharing the program with private companies.

Just to further complicate the situation, in the wings as the hearings begin, is the so-called Scafuro plan. Supported by some 250 export companies, this approach would set up a privately operated corporation, which, backed up with the full faith and credit of the U.S. Government would issue export credit guarantees.

Confusing though all this is, there is yet more.

Late last week, there was a report that the five-company insurance pool, after looking at some of the difficulties, decided it couldn't make a commitment to join with the Export-Import Bank until the first of the year anyway, and so advised the Bank.

Export-Import Bank Vice President Tom Killefer, who is the central Government organizer of the participation project denies he was told this. But he admitted that "if we don't hear from them one way or another pretty soon, then we'll have to act on our own"—meaning the Export-Import Bank will have to set up a simple fee arrangement to pay private companies, at no risk to themselves to act as the Bank's agents in writing guarantees.

"The Government can't wait forever," he said. "We'll wait a week or so and if we don't hear from them, we'll just poke them a little."

Senator ENGLE. Senator Scott?

Senator SCOTT. On page 7 of your statement, Mr. Scafuro, there is the line:

In most instances, however, such political action in the purchasing country results in delayed payment rather than outright loss, and the Government would in due course recover.

That struck me as a little optimistic. We usually give these things away after a certain number of years.

Mr. SCAFURO. I realize that in some of the situations which we have encountered in Latin America the Export-Import Bank has had to come in to provide bail-out loans. But these loans are gradually being liquidated.

Senator SCOTT. Do you contemplate covering such things as sugar plantations?

Mr. SCAFURO. Not unless the financing or credit extension involved the purchase of American machinery to be used on the plantation, or involved the employment of American technical services which are payable in U.S. dollars. I think those exports of goods and/or services which emanate from this country and result in accounts

receivable for this country are the things we are aiming at. We must assure the American purveyor of the goods or services that he will get his dollars back into this country.

Senator SCOTT. It is certainly an interesting approach.

Mr. SCAFURO. Senator, if I may, I would like at this point to mention that I have with me here Mr. Stanley E. Hollis, who has been the consultant to our committee. He has a wealth of background in this field. He was the president of the American Foreign Credit Underwriters and later chairman of its board. His company engaged in the underwriting of export credit insurance—all risks practically at that time—from 1921 to about 1932, when, by reason of the lack of political risk backing from the Government, they had to desist from further activity in the export credit insuring field.

May I ask Mr. Hollis to respond to your last point?

Mr. SCOTT. I would be glad to have him do so.

Mr. HOLLIS. On this question about the political risk claims being eventually recovered, of course we are referring here only to trade credits. There have been situations within recent years in Brazil, Colombia, Turkey, and other countries where, because of exchange transfer delays solely, not because of any inability of the customer to pay, the American exporter has had to wait months and sometimes over a year for recovery of his receivables. But eventually all those receivables have been paid in full when the foreign government accumulated enough dollars to permit local currency to again be converted into dollars and the dollars remitted to this country.

The exporters of other countries, having their accounts insured, received payment from their insurance companies within 3 months, 4 months, or 6 months, whatever waiting period their insurance policies stipulated.

We in the United States have had to wait indefinitely, though eventually, in one or two cases, the Export-Import Bank has arranged to refund some of those frozen receivables in order that our exporters could get payment a little earlier than they otherwise would have.

As to sugar plantations, we are not considering investment credits at all; purely trade credits of shipments of goods and services from this country. Sugar machinery, yes, could come under the insurance program.

Senator SCOTT. Take Turkey, for example. I have in mind a Pennsylvania company to which the Turkish Government—at the time I heard of it—was indebted for a considerable sum of money. Do I understand you to say that you think eventually the Turkish Government will pay this company?

Mr. HOLLIS. Yes. They have entered into a refunding arrangement. Turkey is an extreme case. In their case they are taking much longer than it took the Latin American countries. But already they have repaid a fair amount of those deferred credits, and the general expectation is that they will eventually pay in full.

Senator SCOTT. I appreciate that. Would a privately owned managing company take care of needs of small business as well as a Government agency? I am wondering if there wouldn't be a tendency on the part of a private company to put its energies primarily to doing business with larger exporters where a greater volume could be obtained with less sales effort?

Mr. SCAFURO. I would believe that the particular type of private company that we are suggesting would, with a Government director on the board, aim at attracting as large a volume of business as possible from small, medium, and large exporters. Its objective would be to build up as large a volume of business as promptly as possible so that it might create reserves adequate to support a steady increase in business.

Senator SCOTT. I appreciate that. I understand that there are other nations which have operated government agencies to provide export credit guarantees. These are now shifting over more to the type of setup to which you have testified. Would you tell us more of which countries are doing this, and why?

Mr. SCAFURO. I would like to point to Germany as an example. There the underwriting agency, Hermes, is owned 100 percent by the large commercial banks in Germany. However, until now, it has been writing all risks strictly for account of Government.

It is interesting to observe, however, that about 3 or 4 months ago the Minister of Economics of Germany let it be known that he felt that the time had come for Hermes to give consideration to carrying for its own account commercial credit risks up to a given limit, beyond which the Government might provide some kind of a supporting fund. This approach more or less falls in line with what we are thinking about.

As I indicated before, in Holland there is almost exactly the type company we are proposing, and it has been operating successfully for many years.

Senator SCOTT. You mentioned Holland?

Mr. SCAFURO. That is right.

In France the same situation applies to a modified extent. There is a private company which, however, does have access to the Government reinsurance.

If I may add, I feel that with the ingenuity of American enterprise and our desire to forge ahead in maintaining a private enterprise economy, that private enterprise ought to have a chance to get moving in this particular field with, necessarily, some Government assistance at the beginning.

Senator SCOTT. I appreciate that.

That is all I have, Mr. Chairman.

Senator ENGLE. Mr. Scafuro, I note the insurance companies seem to be a little chary about getting into this program with the Export-Import Bank. It has occurred to me that the proposal which you and your committee have made may have some bearing on what they want to do; that is, they may not want to buy into this export-import proposition too fast when there is some possibility that this other program might become available. Do you suppose if this committee settled that proposition and made it very clear that we wanted to adopt policies of S. 1729 that the insurance companies would be a little more apt to move into it?

Mr. SCAFURO. I would like to answer that in perhaps two parts.

One: Export credit insurance is unlike any other kind of insurance being written today. War risk, aviation insurance—these are hazards which insurance companies understand. The insurance companies individually have knowledge in depth about these hazards. That,

however, is not true when it comes to the matter of export credit insurance. That is dealing in a phase of international trade finance. That requires a knowledge of balance sheets; it requires a knowledge of market conditions abroad. In a word, it would require the setting up of an entirely new department with a specialized staff in every insurance company. They are not prepared to do this on a company-by-company basis. It would be too expensive, and in the long run, inadequate.

The second problem is that the insurance companies are very sensitive to any Federal Government encroachment in any field of insurance.

Senator ENGLE. Don't you think that would really scare them when they look at the corporation you are setting up?

Mr. SCAFURO. May I come to that, sir, in a moment.

They are very sensitive to this Government encroachment and therefore they are now really bestirring themselves to see in what manner they can make an entry into the business.

Senator ENGLE. Maybe your plan will spook them right into the arms of the Export-Import Bank.

Mr. SCAFURO. As I would visualize it, they would at first want a mixed operation. I have no authority to speak for the insurance industry, but this is my appraisal of it: they need a period of experience. They must gradually build up an organization. And looking back maybe on 1 year's experience—they may find that there will then be a need to put together a more permanent organization under a corporate form rather than continue the loose arrangement of a pool or syndicate or association. I see no conflict between their present approach to combine with Export-Import Bank and achieve some kind of facility, knowing full well that as private enterprisers they will eventually want this to be as much in their control as possible, and a corporate approach is perhaps one that they will finally adopt.

Senator ENGLE. I can understand what you are driving at, and your statement is very clear on that point, that the Export-Import Bank will get itself buried in governmental redtape right up to its ears in the details of this kind of an insurance program.

What we have in mind in this bill is to get them out of the details of the operations and restrict them to reinsurance or underwriting, or rather minimum policy controls, and leave their contracting with the insurance companies to take care of the handling of the details.

My fear of the program that you have advocated is that we will never get it through the Congress. That is just about all you need to say about a program if it is true.

I have not reconnoitered with great care, but if I get convinced that we can't get it through the Congress, while it may be perfection as an ideal, we would have to think of other methods.

At any rate, I want to say to you and your committee that you have made a very great contribution to this discussion, the thinking on it, and we appreciate your coming here.

Mr. SCAFURO. Thank you very much, sir.

Senator ENGLE. The next witness is Mr. Paul Seghers, New York Board of Trade.

Mr. Seghers, I am going to have to get over to the floor very soon. I notice your statement deals basically with the problem of taxation,

which is not before this committee, but which is before the Committee on Ways and Means of the House, where all tax legislation originates, and will then be before the Finance Committee of the Senate. Impressive as these arguments are, this isn't the forum, I suppose, where they can be most effectively presented.

I wonder if you would have any objection to your statement being made a part of the record, and then I would like to ask you specifically about the bill some questions that do not deal with the tax features.

**STATEMENT OF PAUL SEGHERS, NEW YORK BOARD OF TRADE,
NEW YORK, N.Y.**

Mr. SEGHERS. Mr. Chairman, I had a luncheon meeting yesterday with 24 men who are vitally concerned with foreign trade, and had an opportunity to put before them a summary of the actual proposals in the bill and to discuss our proposed statement. I am very pleased to express the consensus of their opinion.

Senator ENGLE. Before you do that, Mr. Seghers, without objection, your statement will be made a part of the record.

(The statement is as follows:)

STATEMENT OF PAUL D. SEGHERS, CHAIRMAN, LEGAL AND TAX COMMITTEE, INTERNATIONAL SECTION, NEW YORK BOARD OF TRADE, INC.

Our appearance today is in support of the objectives of the Engle bill (S. 1729) now under consideration by your committee "to expand our exports; * * * to expand the participation of American small business in exporting; and to establish an export credit insurance program fully as effective as those maintained by our competitors."

We are convinced that these objectives can best be attained through removing some of the competitive handicaps of U.S. taxation imposed upon income derived from oversea operations of U.S.-owned businesses as well as from the production of goods for export.

We believe that most of the provisions of S. 1729, if successfully put into effect, likewise would be helpful in accomplishing the said objectives.

We are, however, convinced that far greater results would be accomplished in attaining these objectives if the same amount of our tax money were devoted to tax incentives for exports, than if spent by the Government in efforts to induce business to engage in export and to help those engaged in such activities.

We are in favor of more efficient organization of Government aid to U.S. producers in exporting their goods. We recognize the need and importance of more rapid communication between potential foreign buyers and U.S. manufacturers and other producers supplying their needs. We likewise are strongly in favor of Government assistance in supplying badly needed credit insurance. This latter has been dealt with by Mr. Frank Scafuro, who has just testified before you, and we are heartily in accord with his views regarding these provisions of S. 1729.

If your committee is interested primarily in achieving these results, we believe that, in addition to the means proposed in S. 1729, you should recommend tax incentives for exports, and express disapproval of the measures now being considered by the Ways and Means Committee which would increase the competitive U.S. tax disadvantage of U.S. taxpayers producing goods for export.

To be specific—we believe that a reduction in the amount of U.S. tax on income derived from the production of goods exported (for consumption abroad) would increase exports and, at the same time, increase the Treasury's total tax revenues, not only from the exporters, but also from labor, supplies, and materials entering into the products exported.

In testifying before the House Ways and Means Committee at its hearings on H.R. 10859 on April 11 of last year, I stated:

"Finally, let's be frank about it—until U.S. business went abroad, risked great sums of capital, and created new sources of income, earned abroad, there was little concern by the Treasury about the rate of taxes on such income. The Treasury now says, in effect, 'Now that you're earning so much of such income, we want a larger cut out of every dollar.' Is that any way to encourage U.S. business to risk more abroad, in the face of the growing competition of politically motivated, Communist-subsidized trade, in countries where the U.S. Government can give our business no protection?"

"I don't say you should merely kill H.R. 10859; I believe your committee should offer real incentives to U.S. business to meet the Communist cold war threat. I urge you—don't merely offer incentives to U.S. business to operate abroad—look the facts in the face and recognize that the interests of all our people will be best served if we also offer incentives to the export of our products.

"Certainly you are not going to do that, subsidize—what a dreadful word—our factories to export more goods by reducing U.S. income taxes on profits from the export of such goods. But you will have an uneasy feeling that maybe you should do just that, that all it takes is the courage to see the need and to act to meet that need. But if you won't help foreign trade, at least don't add to its burdens, as you would if H.R. 10859 were enacted."

Similar statements in support of tax incentives for exports have been made over a period of many years.

As for the tax proposals now under consideration, which would take away a most effective tax incentive for U.S. exporters, especially the smaller ones, your committee is referred to the record of the House Ways and Means Committee hearings just held on June 5 through the 9th.

The statements made at those hearings afford positive evidence as to the extent that U.S. exports of manufactured products have grown and are growing as a direct result of expansion of U.S. business operations abroad, and the effect which the tax proposals presented by the U.S. Treasury would have in checking and reducing such business activities.

To be still more specific—many relatively small U.S. manufacturers have, in recent years, undertaken export activities (and consequently increased their production of goods for export) because, under existing law, profits realized by a foreign subsidiary corporation on its sale of goods abroad are subject to U.S. tax only when received by the U.S. parent corporation as dividends. The expectation of using such profits to build up sales abroad has acted as a most effective inducement to make efforts and risk capital in making export sales, which otherwise would not have appeared attractive. The pending proposal to accelerate and exact U.S. income taxes on such profits before they were received by the U.S. taxpayer would, if enacted, destroy this incentive. More than that—the mere fact that the Congress is considering such action, rather than expressing, as it has in the past, the intention to favor and assist the expansion of U.S. exports and business abroad, already is discouraging those who have just started to expand their activities abroad, as well as those who were thinking of taking steps in that direction.

As for the proposals in S. 1729 for the expansion of services to potential U.S. exporters and to potential buyers (and, in some instances, sellers) abroad, all appear desirable, provided—

(1) We can afford to spend the very large amount of tax money they would cost, and

(2) The cash benefits to our economy would, as to each such expenditure, clearly justify it.

Furthermore, if it is a question of choice between these Government expenditures of tax money, and a like amount applied directly as tax incentives granted to U.S. producers of goods exported for consumption abroad, we reiterate our opinion that, dollar for dollar, the latter would produce the greater benefit to our economy.

We believe that the resulting increase in volume of exports and income would, within a reasonably short time, produce more new tax revenue for the U.S. Treasury, than would be lost by a reduction in the rate of tax on income from such exports. It is to be kept in mind that increased exports bring increased tax revenue not only from the tax on the income realized by the producer, but also from taxes on employees and suppliers of all kinds of services and materials which enter into the production of the goods exported. From all of these, the Treasury would reap a rich harvest.

Senator ENGLE. Now, then, sir, you may proceed with your summary.

Mr. SEGHERS. The consensus was that of all Government bodies, they found the Department of Commerce most helpful and most valuable, and the views expressed were that if the Department of Commerce were given more money to expand its facilities and operations, it would be money well spent.

Our prepared statement was prepared on very short notice. I did not receive Senator Magnuson's invitation until the end of last week. I had no opportunity to circularize the large number of men with whom we are in contact who are interested in this subject. I could not hope to get a questionnaire out and receive replies in time. But at the luncheon meeting which I was able to call, the indications were that, had we sent out such a questionnaire, there would have been a similar view, because we had a good cross section at that meeting.

I am very pleased that you are going to include our statement in the record, and I might also ask if you would include as exhibits in your proceedings, copies of the statements that were presented before the Ways and Means Committee on June 8, and an excerpt of the oral testimony, because there is a direct link between the provisions of S. 1729 and those proposals, which would be very harmful in reducing the volume of foreign business and indirectly but very certainly reducing the volume of our exports.

When I was invited to appear here, I gave several reasons why I would be better suited to speak on taxes than on Department of Commerce activities. But we do have one common objective, and that is to help our industry in this country, to help the economy of this country. That objective can be helped in two ways. One is by furnishing services such as the Department of Commerce furnishes, and that is very valuable; and the other is taking a little less money away from exporters on their profits derived from production of U.S. goods for foreign sale, taking a little less tax away from them than from those who enjoy all the benefits of our Government in producing goods and making domestic sales.

We feel very strongly that it is good to reduce the amount of taxes on exports and let the Treasury as well as the whole economy profit from such a reduction. For every dollar that the Treasury would lose directly by a percentage reduction in the amount of taxes on such profits, the Treasury would profit and the economy would profit by increased exports.

I know that existing U.S. tax incentives have done more than anything else in the past 6 or 8 years to increase the exports of small manufacturers. I know that many small manufacturers have gotten really active in exporting their goods because of the possibility of paying out a lesser amount of tax immediately—eventually they would have to pay the tax—and thus to accumulate profits which they would use to expand their export sales and enable them to get into active exporting.

So I feel that the objective of this committee can be attained by supporting a move for tax incentives to exporters.

Senator ENGLE. Of course, this committee wouldn't do that. In other words, this committee will not invade the jurisdiction of the Committee on Finance.

To the extent that the information with reference to the effectiveness of tax incentives is information to every Member of the Senate, that information is good for us. But the problem is to work with the bill we have, which is within our jurisdiction, and under which basically we are undertaking to improve the facilities for helping our export trade overseas, and improving the credit arrangements which make it possible for American exporters to compete at least on an equal basis with their competitors overseas who have received substantial help from their governments.

I am conscious of the problem about tax incentives. But it is not relevant to this particular legislation, unless you feel that in some way or other this bill is an additional burden upon the exporters as a tax matter.

Mr. SEGHERS. I think that this bill proposes steps which can be of great help. My opinion in that matter is not one of a qualified expert. However, I was able, as I say, to talk to a number of men, and now I can speak with the assurance that people in whom I have confidence, with whom I talked, who know what they are talking about, feel that what the Department of Commerce is doing is good, and anything that will speed up communications between the commercial attachés in the field and the Department of Commerce here and the U.S. manufacturers here will greatly enhance the value of those services.

I can say now that it is not my individual opinion but the opinion of a number of those who are competent to speak, with whom I have talked, in favor of the bill and its proposals. Hence, now I am able to say more than I could put into the prepared statement.

Senator ENGLE. I appreciate that.

It occurs to me that if it is possible for you at some time to circulate the questionnaire on a broad base, to which you have referred, and if you would like to do that and give us the results of it, we would be glad to have it as a part of this record.

Mr. SEGHERS. What would be the deadline for that?

Senator ENGLE. We will be at this for some time. I would suppose any time within the next month would be all right. If you can do that, we would be glad to have the results of your questionnaire.

Mr. SEGHERS. Fine.

We will be glad to do that.

Senator ENGLE. Thank you very much.

We appreciate your appearing here today.

Without objection the statement presenting the excerpts of testimony before the Ways and Means Committee will be made a part of the record, and without objection a resolution passed by the Florida Ports & Foreign Trade Council, Tallahassee, Fla., which unqualifiedly supports S. 1729, will be made a part of the record at this point.

(Documents referred to follow:)

STATEMENT OF PAUL D. SEGHERS BEFORE WAYS AND MEANS COMMITTEE HEARINGS ON ACCELERATION OF U.S. TAXATION OF UNRECEIVED INCOME OF FOREIGN CORPORATION SUBSIDIARIES, JUNE 8, 1961

This statement will go straight to the question why certain foreign corporations should be designated as "tax haven corporations" and their U.S. owners penalized. This raises the question whether there is anything evil about a foreign

corporation which earns income outside the country in which it was incorporated and pays foreign income tax at a relatively low rate and is therefore designated as a "tax haven corporation."

In searching to discover what is meant by this term and why the owner of shares of such a corporation should be forced to pay U.S. income tax on its income before anything is received, if ever, a simple example of the effect of this proposal might be helpful.

A U.S. corporation owns all the stock of a Panama corporation. The latter buys and warehouses goods in the free zone of Panama which our Government helped that country to organize and establish. This Panama corporation derives its income from selling these goods through stores it operates in Colombia and Venezuela.

Under the proposal, it would be treated as a "tax haven corporation" and its income would be taxed at once to the U.S. owner of its stock, although it might never be received.

If, however, the Panama corporation organized a corporation in Colombia to make the sales there, and one in Venezuela to make the sales there, the income would not be subject to U.S. tax until paid out as dividends to the Panama corporation, which would then be characterized as a "tax haven corporation."

We do not see why our Government should force the use of a separate corporation organized under the laws of every country in which substantial sales are to be made.

We likewise do not see why the U.S. Government should penalize the owner of a foreign corporation which is organized in a country where it pays a low foreign tax on its income, when this results in more money available for dividends to the U.S. owner and more income tax to the U.S. Government when such dividends are received, than if the corporation had paid its foreign income taxes at high rates.

Those who are experienced in this field are aware of the many business and foreign income tax reason for using corporations organized in different foreign countries to cope with differing circumstances.

We can perceive no justification for taxing the owner of the stock of a corporation organized in one country upon its income before it is received, whereas the owner of stock of a corporation organized under the laws of another foreign corporation, but deriving income from identical business operations, would be taxable only when the income was paid up as dividends.

To summarize—the reasons for not taxing a U.S. shareholder on income earned abroad by a foreign corporation until received as a dividend are the same:

- (a) Whether that corporation pays foreign income taxes at a high rate or at a low rate; and
- (b) Whether it operates in one or more countries other than the country in which incorporated.

As far as we can perceive, the Treasury has given no reason why there should be any such distinction, and without such a distinction there is no basis for singling out and penalizing the owners of certain foreign corporations merely because they are designated as "tax haven corporations."

RESOLUTION OF FLORIDA PORTS AND FOREIGN TRADE COUNCIL

Whereas the United States is on the verge of a historic change in its foreign trade policy, since changing world conditions have made such policy inseparable from the U.S. total policies and political objectives; and

Whereas the "status quo" of U.S. foreign trade policy can no longer be preserved in today's world; and

Whereas the United States is entering into a challenging program whereby to increase its exports abroad, preserve its domestic economy and its defense, and aid the free world; and

Whereas the United States urgently requires a set of principles governing its international trade policy, to include: (1) a trade adjustment assistance program, (2) a vigorous participation in GATT, (3) an active use of the Organization for Economic Cooperation and Development, recently ratified by the U.S. Senate, (4) expansion of U.S. export credit facilities, (5) reduction of reciprocal trade barriers, (6) vigorous pursuit of the export expansion program with greater emphasis on the role played by the U.S. Department of Commerce's Bureau of Foreign Commerce; and

Whereas S. 1729 appears to embody all of the spirit and intent of the above:
Therefore be it

Resolved, That the Florida Ports and Foreign Trade Council support S. 1729, "Foreign Commerce Act of 1961", as being in the best interests of the United States and Florida's economic well-being and for the best protection of the ultimate interests and well-being of all Americans.

Signed and sealed in Tallahassee, this sixteenth day of June of the year nineteen hundred and sixty-one.

D. A. WATTS,
Chairman-President.

I. P. DE PEDRAZA,
Executive Director.

Senator ENGLE. The committee will stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12:28 p.m., the committee was recessed, to reconvene at 10 a.m., June 22, 1961.)

FOREIGN COMMERCE

THURSDAY, JUNE 22, 1961

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to adjournment, at 10 a.m., in room 5110, New Senate Office Building, Hon. Clair Engle presiding.

Senator ENGLE. The committee will be in order for the further consideration of S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes.

Our first witness this morning is Mr. Ray W. Macdonald, vice president of the Burroughs Corp. of Detroit, Mich.

Mr. Macdonald, we will be happy to hear your testimony at this time.

STATEMENT OF RAY W. MACDONALD, VICE PRESIDENT, BURROUGHS CORP., DETROIT, MICH.

Senator ENGLE. I observe that you have a statement prepared.

Mr. MACDONALD. I do.

Senator ENGLE. You may insert it in the record and summarize it, or read it in haec verba if you choose.

Mr. MACDONALD. I think I should read it, if that pleases you, sir.

Senator ENGLE. You may proceed.

Mr. MACDONALD. Mr. Chairman and members of the Senate Commerce Committee, my name is Ray W. Macdonald. I am vice president of the Burroughs Corp. of Detroit, Mich., and general manager of the corporation's international division. I am presently a director of the Committee for a National Trade Policy and am chairman of the World Affairs Committee of the Detroit Board of Commerce. I am testifying as an individual at the request of your chairman, who has suggested that I cover the general benefits to be derived from increased exports, the problems presently existing in this area and my conclusions as to the merits of one or more of the four titles of S. 1729 in facilitating increased trade.

Since colonial times, export trade has been important to the U.S. economy. It has provided many jobs in many industries, in agriculture, in the mines and forests. Export trade has provided a stimulus to the economy in the form of increased production that would not have otherwise been obtained and has made possible—in many cases—lower production costs, lower prices and greater profits for many domestic industries. It has been estimated that the \$20 billion we exported in goods last year accounts for between 3 and 4 million jobs in the United States.

Exports also support our foreign policy. The products exported from the United States provide a vital contribution toward raising the standards of living of less developed countries. The export trade surplus contributes to our ability to sustain expenditures abroad for U.S. military forces and programs of economic aid.

These exports also maintain a direct contact with the oversea economies and provide a real contribution toward combating the Soviet economic offensive, to which so many Government officials have recently referred.

There is general agreement on the importance of these exports. There has also been much concern about their future and questions have been raised as to whether we are being "priced out of world markets," the status of the U.S. balance of payments and the relation of this to the dwindling of our gold reserves.

We are now at the beginning of an entirely new period of world economic development and I believe that an opportunity exists for a very great expansion of exports from the United States. In certain periods of our history, the U.S. economy has grown more rapidly than those of other countries. And I might add the enormous size of the U.S. economy plus this growth has resulted in concentration of attention on internal expansion and, consequently, internal policy.

At the present time—and probably over the next 20 to 50 years—the United States has probably reached the stage of economic development where it will experience internal growth at a moderate rate—and I wouldn't wish the committee to misinterpret my modest use of the word "moderate"; I expect it to grow strongly and vigorously—but we will have oversea economies which are growing, and are likely to continue to grow, faster than the United States.

These trends appear to be having a positive effect on U.S. exports, which have been growing at a faster rate than either the U.S. gross national product or imports in recent years. For instance, exports in 1960 were 93 percent above those in 1950 while imports had risen 66 percent and gross national product 77 percent. (Source: U.S. Department of Commerce.)

Out of the free world's population of approximately 2 billion people, less than 10 percent live in the United States. Until very recent years, approximately 50 percent of the total market for many manufactured goods, and almost as high a proportion of total income and productive capacity, was located in the United States. This situation has formed the foundation for many of our commercial and foreign policy decisions since World War II.

The markets outside North America—at least for many types of products—have very recently become larger than their domestic counterparts. And I would like to comment here that I feel that the principal value that my testimony can have to this committee is to give to you my impressions of what the size of this world market is and is likely to be in the next 10 to 20 to 30 years.

By 1970, I believe it is not unreasonable to forecast that these oversea markets will be two to three times as large as those in the United States and by 1980 possibly three to four times as large. Sometime during this period, the European market alone—with its 270 million people—will raise its gross product to equal and then surpass that of the United States. In this new era in which we no longer maintain

more than half of the free world's productive capacity, we must compete on an equal basis with foreign producers. We should regard this as a normal and necessary result of the programs for increased living standards for our friends and allies which we have long supported.

The most powerful force behind this rapid growth of oversea economies is the aspiration of both the advanced and the less developed peoples to increase their earning levels and living standards to the levels we now enjoy. And, of course, if we can all go beyond this point, we will do that, too.

A second important aspiration is to make for themselves the things they are now buying from us. These aspirations are viewed with alarm by some of our people. However, what sort of a world would we live in if all the 2 billion people of the free world (or, preferably, the entire world) lived as well as we do. What would be our economic power, our export trade, our world political position, and our alliances?

We should welcome these aspirations as these countries must reach a respectable and high standard of living to achieve stability and a decent enjoyable life for their peoples. We could not possibly supply the entire 2 billion people of the free world with all the goods and materials required to lift their living levels to our levels. Therefore, we must develop policies and programs to assist them to develop as large a measure of political stability as possible and to benefit our own economy and people in the process.

These aspirations—to raise the standards of living and income—have created a vastly increased demand for all types of products and particularly for those types of products on which the United States has a basic comparative advantage. And they are the kind of products in which many U.S. industries have gained a great deal of experience and know-how and done original research and development in this country.

In addition, the rising oversea demand has created, in many of the advanced countries, conditions of full—or overfull—employment and full utilization of existing resources. Under these conditions, a great opportunity does exist in oversea markets for increases in both locally-produced goods and in U.S. exports, and they can both flourish if we take advantage of the opportunity.

There is tremendous and far-reaching significance implicit in this new situation. Our problem is that we must understand and recognize both the great growth and the changing patterns and—as a result—transform this recognition into specific programs and policies with which to take maximum advantage of our opportunities.

If we are alert to the opportunities which will present themselves over the next 20 years, the resulting increase in foreign trade can stimulate and perhaps even increase the growth of the U.S. economy. It is most satisfying that the Commerce Committee is seriously considering methods of realizing these opportunities.

It would appear that much of our thinking and programs have been stimulated by such currently important short-term issues as the balance-of-payments position and the question of pricing ourselves out of world markets. I would like to suggest to the committee that they consider the institution of a broad basic study to determine the future growth of the free world as a market place and the stimulus that this growth can give to the further expansion of the American economy.

Within the framework of this broad study, we should formulate a series of integrated programs. Since such programs would involve and strengthen the economies of our friends and allies, it might be beneficial to conduct discussions and formulate programs on an international basis. It is obvious that the effects of such programs on the Soviet Union's stated purpose of waging economic war with our economic system would be significant.

Within this context, I believe it is obvious that we cannot provide the maximum contribution to either the U.S. economy or to those of our friends and allies through export promotion alone. Income from foreign investment is—next to exports—the largest single source of receipts in the U.S. balance-of-payments. If the United States is to obtain maximum benefits for the domestic economy and, at the same time, aid in creating strong economies for our friends and allies, I believe that we must create a balanced program which will encourage U.S. overseas investment, as well as exports, to a much greater degree than in the past.

These overseas investments directly support and increase U.S. exports and domestic employment. For example, in my own company our exports of components to our overseas factories are much greater than our exports of completely finished products, and our exports of components to overseas factories exceed the exports of finished components as of 10 years ago by $1\frac{1}{2}$ times. So our largest single export is the export of components to our overseas manufacturing plants.

Senator ENGLE. And this has been a very significant development in the testimony.

No doubt you heard Mr. Morrow yesterday, of the Joy Manufacturing Co., along the same line.

Mr. MACDONALD. I didn't hear him, Mr. Engle, but it is true—I have discussed this point with a great number of my associates in businesses which are engaged in considerable exporting and we find that this is a broad general pattern. Many companies today are exporting more in components to their overseas plants than any other single category. And we are exporting between $1\frac{1}{2}$ and 2 times as much in components as we were in total exports 10 years ago.

Senator ENGLE. This is a point that should be gotten across to the Treasury Department, because in stopping the outflow of gold, one of the things that they were concerned about was the outflow of investment overseas. If the testimony we have heard here reflects the general situation, that is not true at all. The investment overseas actually brings in more than it sends out.

Mr. MACDONALD. That is correct. I believe that this has been adequately covered in other testimony, but it certainly is true in our case. In the case of my own company, in the past we have had a net inflow from our overseas investment. Our president recently had this analyzed and found we have had a net inflow into the United States from our foreign investments for about the past 35 years.

If your committee is interested, as this is an individual case, I will get the data for you. But as an individual company we have had a net inflow from our foreign investment for the past some 35 years and, in addition to that, our exports of components to our overseas factories have exceeded in the past 10 years our exports of finished goods.

Senator ENGLE. We would like to have that statement. It is a very important addition to this record.

Mr. MACDONALD. All right, sir.

These oversea investments directly support and increase U.S. exports and domestic employment.

First, many of the investment funds return to the United States to purchase American capital equipment. At this time we are buying tools in the United States extensively to equip our oversea plants.

Second, in the case of manufacturing companies these investments result in increased purchases of raw materials and component parts for manufacture and assembly abroad.

Third, U.S. companies can achieve a much greater level of exports of finished products if they organize a balanced export-investment program. A large oversea distribution system and a specialized management team is necessary to successfully market our products. While a substantial oversea demand exists for American-made products, this organization could not be supported by exports alone.

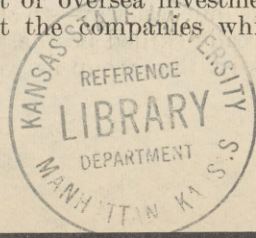
I refer here to the fact that in many situations you have to have a balanced line of products. Some of these products must be manufactured abroad by the fact that you have oversea competitors; others, particularly the new, more recently introduced technological products, are manufactured here. But you have immediately available to you a large worldwide marketing organization.

For example, at the present time we have between 3,500 and 4,000 people employed abroad in the sale of our products. About 75 percent of the sale is from products manufactured abroad. But as we introduce new products here, we immediately have the total of that sales force available for the distribution of American-made products. And there are many products which we would introduce through that sales force that we would not be able to afford to introduce at all if it were necessary to go out on a worldwide basis and create an entirely new sales force or other means of distribution to do that job.

For further definition of the motivations and benefits of U.S. foreign investment, I would like to refer you to my testimony presented to your committee on April 26, 1960.

In addition to its effect on U.S. exports, foreign investment creates an inward flow of dollars, which has an effect similar to exports on the U.S. balance of payments. After foreign investment has increased production in the recipient country, dollars tend to flow back to the United States in the form of earnings. This has been the experience of my company, which has maintained a net flow of funds into the United States over a long period of time.

The creation of a balanced export-investment program can also stimulate the U.S. economy through the creation of additional skills. If U.S. companies can effectively conduct operations on a worldwide basis, we have the opportunity for the United States to become the principal management and training center of the free world. This would create the need for more education, greater skills, and would result in more employment and in higher per capita incomes in the United States. These benefits would also be felt by many domestic businesses not directly engaged in export or oversea investment, by businesses and industries which support the companies which do engage in a worldwide business.



I mentioned a moment ago that we are buying machine tools in the United States at the present time to equip some of our oversea plants. The companies that we buy these tools from are not directly engaged in oversea business, but because we are engaged in oversea business as far as they are concerned, the purchase takes place in Detroit. But all of the complexities of oversea operations flow through our organization, which is engaged in a worldwide business.

We should plan on an increase in imports in order to create the foreign exchange necessary to pay for the increased exports and dividend income. These imports create competition and help to further stimulate the introduction of new and improved products, additional increases in productivity, and lower prices in the domestic market.

The combined effect of these basic factors can influence the economy far beyond their direct effects and can result in significantly increased employment, personal incomes, and possibly a higher level and growth of our gross national product.

The combined benefits of such a balanced program create a series of tremendous opportunities for the United States in the oversea markets. However, as mentioned previously, we need effective legislation and administrative programs aimed at taking maximum advantage of the capability of all elements of U.S. business.

The Secretary of Commerce recently estimated that there were 300,000 manufacturing enterprises in the United States, of which only about 12,000 were engaged in exporting. Of these, it is estimated that about 3,000 U.S. companies have well-developed international organizations staffed to promote our exports—I get some of these figures because I am a member of the regional export expansion committee, and all of this material comes in to us—and these firms are responsible for a high portion of our exports of manufactured goods. These companies are also largely responsible for the total U.S. direct investment abroad, estimated at about \$32 billion in 1960.

A Department of Commerce study for the year 1957 has estimated that U.S. direct investment enterprises abroad employ about 3.2 million foreign employees and earned nearly \$4 billion, of which over \$2 billion was remitted to the United States. A second group—consisting of the remaining 9,000 firms—conduct some oversea trade and export from the United States. These firms—to a great extent—do not have extensive information concerning oversea trade opportunities and conditions. The third group of U.S. businesses—the remaining 288,000—conduct no oversea or export business directly. Many of these produce materials or products which would not be susceptible to international trade. However, a great number of these do have products that could enter international trade but do not enter this field because of lack of knowledge of the opportunities.

Much of the emphasis of the Department of Commerce programs has been directed at encouraging these nonexporters—both large and small—to enter the export business. These programs are very valuable and can result in significant benefits to the U.S. economy.

However, it is a basic tenet of people who have developed a successful organization that the easiest and least expensive way—and I might add the quickest way—to obtain expansion of business is to encourage the already skilled people. Our programs should, therefore, support and assist this group as well. The United States is most fortunate

that it has approximately 3,000 companies already skilled in overseas operations. It is not necessary to mention that these organizations are second to none in the world, and certainly not second to the Soviet Union; they are vastly superior to the Soviet Union at the present or in the near future, which cannot duplicate these organizations nor could they provide an adequate substitute which could achieve an equivalent impact upon the world economy. I wonder if the Government completely appreciates the value of this group and I would like to suggest that a portion of the overall study be devoted to measure the total capabilities of this skilled group of firms.

The reason I have made this point, Mr. Chairman, is that in some recent speeches made by Government officials, they have indicated a number of experts, engineers, and so forth, have been sent out by Russia in their economic offensive in order to penetrate certain areas. There does not seem to be an awareness of the tremendous body of skill that exists in the United States. And I might add that similar bodies of skill exist to a lesser degree in the great trading nations of the Western World, such as Britain, France, Belgium, Holland, West Germany, and so forth.

I would like to emphasize the value of encouragement of the businessmen in this skilled group in order to promote a close relationship between business and Government—rather than the implication of some recently proposed legislation which would seem to drive business away from foreign operations. Such relationship can result in significant benefits to the United States and free world economies and can be important as a weapon in the economic war. Those in this group do not ask for any special conditions which would not be available to their overseas competitors. However, if they are to take full advantage of the marketing techniques, advanced product design and the engineering and manufacturing know-how which have been developed at home, they must be able to at least compete in the individual overseas markets against the strong local competition on an equal basis in regard to governmental encouragement and regulations.

A related factor of importance is the recently proposed tax legislation which would tax the income of U.S. overseas companies when earned rather than when remitted to the United States. Even if this legislation were to restrict the flow of investment funds to overseas countries—which I think would be most harmful—it would have the same adverse effect as the restriction of trade through the limitation of imports and would certainly result in reduced dividend remittances—both short term and long term—and would result in a reduction of U.S. exports in the fairly short term.

It would also have the effect of crippling the balanced programs of many companies.

It is my feeling that the measures contained in S. 1729 will provide a part of the solution to the overall problem of stimulation of U.S. foreign trade and investment. As you requested, I would like to comment briefly upon certain specific provisions of the bill.

First, the creation of a Foreign Commerce Corps on a career basis is critically needed to assist in the development and implementation of the required overall programs. The efforts required to maximize our efforts in foreign trade and investment are so great and beneficial to our economy that a major organization will be required. I assume

from S. 1729 that the Congress plans to place this increased responsibility in the Department of Commerce. If so, the increased Foreign Commerce Corps should be under the direction of the Department of Commerce. Obviously when they operate in the field they would be, as at present, under the direction of the ambassador in the individual country.

Senator ENGLE. I might say there that our purpose is to put the operational program in the hands of the Department of Commerce. We have never had any intention of placing in the Department of Commerce overall control of foreign trade policy, which would remain in the State Department. We think we cannot build the kind of professional corps that we need in this field by leaving these commercial attachés in the State Department, where they are a sort of a fifth wheel.

I don't want to divert you from your statement except to add this at this point.

In other words we want the operational activity in the Department of Commerce. The overall policy matters with reference to the decision and policymaking in foreign trade will still stay in the State Department, and these people would work directly under the Ambassadors overseas.

Mr. MACDONALD. Second—although I have little personal experience with the small businessman—and I would say this with respect to assisting them to getting into oversea business, as I have lots of experience with them in other areas—it would appear desirable to expand the services of the Small Business Administration through the creation of an Office of Liaison with the Department of Commerce. I believe that there are many companies of the type mentioned before in groups 2 and 3 who are unaware of the opportunities existing in oversea markets and who would be able to utilize the proposed services outlined, with resulting benefits to U.S. exports.

The problem that I see here, however, is that care should be exercised that duplication does not develop between the Small Business Administration and the field offices of the Department of Commerce. I frankly am not sufficiently knowledgeable to know whether such duplication would develop from this.

Senator ENGLE. We recognize that danger. Mr. Morrow mentioned it yesterday. We are going to pay close attention to that provision for that reason.

Mr. MACDONALD. Third, I am in favor of export credit guarantees as a general proposition and as beneficial to all three groups. However, I realize that the administration and extent of such a program is highly technical and must be studied carefully by qualified financial experts in this area, and I do not feel personally qualified to comment in this area because in my own experience we have not made use nor found it necessary to use the facilities which already exist in Government.

In conclusion, I feel that notwithstanding the benefits provided, it is important that we regard this bill as one element in the larger problem of the encouragement of U.S. foreign trade and investment and the resulting stimulation of U.S. income and employment. It is important that we take full advantage of all of our opportunities, including the encouragement of those elements of U.S. business which

are already organized for overseas operations and which provide such a significant portion of our total exports. American business can compete with overseas competition on an equal basis. I am confident that the energies and technologies that have been fostered by both domestic and international competition and which have resulted in our present standard of living will enable us—in the long term—to take advantage of the tremendous growth taking place abroad. This will provide material benefits to the U.S. economy in the form of increased skills, employment and income, as well as a steady growth of exports and overseas investment.

Senator ENGLE. Mr. Macdonald, we very much appreciate your statement and your appearance here. It has been an illuminating statement and a very fine one on this subject matter.

I don't believe I have any questions to ask. I have asked them as I have gone through your testimony.

I especially appreciate the fact that you have commented on the significance of trade opportunities that will exist in the next 10 or 20 years. I note, too, that you call attention to the fact that competitively we are going to be in quite a different situation in these years ahead than we have been in the past.

Whereas you state approximately 50 percent of the total market for manufacturing goods, and almost as high a proportion of total income and productive capacity is located in the United States, you recognize that that situation is going to change. And so we are at a significant point in the history of our trade relations. That is why we think it is so important to get with this matter now and to take the kind of steps that will make it possible for our people to compete on a basis equal with their competitors throughout the world.

Mr. MACDONALD. I want to congratulate the Senate Commerce Committee for giving this major attention to this problem at this time. I think it is of major consequence to the United States.

Senator ENGLE. From my point of view it is one of the most important pieces of legislation we have, and we are going to work hard to get it together and to get it through this Congress.

Thank you very much for appearing here.

Mr. MACDONALD. Thank you.

Senator ENGLE. Our next witness is Mr. Harold B. Say, Washington manager of the Portland Chamber of Commerce, Portland, Oreg.

STATEMENT OF HAROLD B. SAY, MANAGER OF THE WASHINGTON OFFICE OF THE PORTLAND (OREG.) CHAMBER OF COMMERCE, WASHINGTON, D.C.

Mr. SAY. My name is Harold B. Say. My address is 420 Mills Building, Washington, D.C., where I am located as manager of the Washington office of the Portland, Oreg., Chamber of Commerce.

Mr. Chairman and members of the committee, I am here on request of my organization to state that it is firmly convinced that this bill should become law. It is particularly concerned in title III of the bill, and believes that should it become law our section and all other sections of the United States will benefit directly or indirectly.

I would like first to read to you a telegram received by me June 19 from Michael Frey, president of the Portland Chamber of Commerce,

setting forth our organization's viewpoint. Mr. Frey is publisher of the Oregonian, Portland's oldest daily newspaper. The telegram which Mr. Frey asked me to transmit to you follows:

We respectfully emphasize desirability of enactment title III authorizing Secretary of Commerce to establish Foreign Commerce Corps of Personnel equipped by training experience to serve this Nation abroad in stimulating exports. America at one time had foreign offices of the Department of Commerce whose services were internationally recognized as superior among exporting countries. Now other nations have adopted former American methods and lead us in this field. This Nation has unfortunately employed new procedures since 1939 resulting in interminable delays in communication of commercial intelligence. An American seeking through our Government agencies data on market conditions and buyers abroad is today thwarted by redtape procedures long ago abandoned for more direct and productive methods by such countries as Germany, Canada, Italy, Japan, Sweden, Holland, and others. Lacking current commercial data from abroad the excellently staffed Department of Commerce field offices in principal cities in this country are operating at a fraction of their potential capacity. Small companies in particular are not able to afford expensive representation abroad required in conducting foreign commerce. We urge earnest consideration of the possibilities inherent in title III of this bill. Other elements of the bill are under study here. The entire bill is slanted toward long needed improvements which should stimulate employment throughout America and particularly in this area which is so heavily involved in production for export.

That is the end of Mr. Frey's telegram.

Over recent years, the Portland Chamber of Commerce has testified in favor of numerous bills looking to the expansion of commercial effort abroad by our Government in the interest of foreign trade promotion. In its various appearances before yours and other concerned committees, it has expressed the viewpoint that this type of work would be most effective if carried out by the Department of Commerce. We do not think that a joint operation by the State and Commerce Departments is as effective as a single-purpose undertaking by the Department of Commerce which is specifically concerned with business promotion.

I might interject there, Senator Engle, we don't mean to depreciate the Department of State. We recognize that the people abroad in the various countries are going to work under the basic direction of the ambassador and certainly not in opposite directions. It was true, I am sure, under the old Hoover days when we did have a very strong commercial attaché system abroad under the Department of Commerce.

In the 1920's and early 1930's under the once very efficient commercial attaché service handled by the Department of Commerce, a Portland businessman by paying the cost of a cable could through the field office of the Department get back an answer from Tokyo or other far places in a matter of 24 to 48 hours. This was a vitally important service to smaller firms not having offices abroad. A small grain, lumber, or tools exporter could have before him an offer from, say, a Tokyo firm. He knew nothing of the concern's status, integrity, or dependability. Commerce Department's man abroad knew from his cable exactly what the Portland firm desired and had to know before committing itself. In a matter of hours, he had the information on the way back to the Portland field office of the Department of Commerce. It was a vast help. I am certain that were a representative of the now farflung organization of Jantzen Knitting Mills here, he

would tell you of the value of that service once available. Jantzen, with headquarters in Portland, was then a relatively small firm. It used the Department of Commerce and found its service most valuable. I cite Jantzen simply as an example. Countless of our Oregon firms used the service. I am certain that it is quite safe to assert that other exporters and importers over the United States, particularly the smaller concerns, likewise found the service invaluable.

As a matter of fact it is so long ago that this type of quick action service was available, that there are undoubtedly hundreds of firms, large and small, which have no conception of the commercial service that could be available. They have accepted delay and poor service as unavoidable.

In recent years, exporters—and importers—in the Portland region have waited weeks and even months to get back the information they desired before entering a deal. In the meantime, the business opportunity at hand in most cases evaporated.

Should this committee desire, I think it can get from the Department of Commerce an impressive list of firms who in 1954 and previously had sought various types of business information from abroad, but which the Department was unable to obtain simply because it did not have the trained corps of operators abroad that once was available.

Enactment of title III which would establish a Foreign Commerce Corps of the United States would restore this once fine service. It would be of particular value to the smaller firms in the foreign trade field which in most cases do not have offices abroad. It should be a major factor in helping push up the trade balance of the United States.

This isn't in my statement, Mr. Chairman, but as you can see, we have principally argued around title III, the commercial attaché corps abroad. Just commenting briefly on the trade fair and exhibits angle, if you want me to take a second, in 1958 the State of Oregon borrowed me from my organization to go out to the Orient to seek foreign countries' participation in our 1959 Centennial Trade Fair. We had some 22 there, including 7 or 8 from the Far East. In the next year the fair was conducted and I went out to help handle particularly the oriental groups.

Many firms in Malaya, little firms for the most part, and in the Philippines, and in Hong Kong, and in Japan, particularly in the first few I mentioned, found new markets in Portland and in Idaho—there were other people down there looking at the fair besides Portlanders—Washington and surrounding territory—found new outlets in our stores which are big in our own communities but small in world affairs. They now have continued markets for some furniture—I am thinking of jewelry from Malaya, furniture from the Philippines, and many, many other items. Those are importers.

That is the other side of the fence we are talking about there. But I think the same thing holds true for our firms which might have an advantage to display in setups that your bill would have abroad.

The Portland Chamber of Commerce would urge that the basic sections of Senate bill 1729 be enacted into law. For my organization and myself, I thank you.

I want to thank you for the opportunity to express our feelings here. Our manager, Mr. Arthur Farmer, who has been with the Portland chamber since the early 1920's, for many years, 1925 to about 1935, was

manager of our foreign trade department and played a very intimate part in it and has watched this most closely. In that same period I was an editor on a newspaper in Portland and dealt a great deal with the import and export companies, and I know from personal experience as well as his of this terrific value that the old commercial attaché system was and could be again.

Thank you very much.

Senator ENGLE. That is what it was prior to 1939?

Mr. SAY. Yes, sir.

Senator ENGLE. And the experience with it at that time was good.

Mr. SAY. Outstanding.

Senator ENGLE. Thereafter it was shifted over to the State Department and has steadily decreased in value to our export trade; is that correct?

Mr. SAY. Yes, sir; that is right.

Senator ENGLE. Our purpose is to put it back where it was prior to 1939 and to create a professional commercial attaché corps. You think that is the proper way to go at it?

Mr. SAY. Yes, sir; we certainly do.

Senator ENGLE. I want to say with reference to trade fairs, I support trade fairs. But here again I would like to see the trade fairs handled by the Department of Commerce rather than the State Department, because the State Department is interested in putting on a show that impresses people overseas. They will show them washing machines and electrical gadgets and everything else, when what we are interested in doing is getting trade fairs operated to sell things.

Maybe they need brooms, shovels, and hoes, and the more rudimentary types of things that people can use in some of these undeveloped countries. That doesn't impress people as much as trade fairs showing the tremendous technological progress in our country, but it gets the job done so far as export promotion is concerned. The difference is one of approach.

The State Department is interested in a showcase of American technology. We want trade fairs handled by the Department of Commerce interested in making deals and selling goods. That is the reason I want to see the trade fairs put in the hands of the Department of Commerce.

If we want to put on a show, if the State Department wants to do that in order to demonstrate in certain countries, an industrialized country like Japan or one of the less developed countries, a trade fair for the purpose of, you might say, propaganda, illustrating the American technological advances in all of these fields, that is perfectly all right. Let them go right ahead and do it. But let's not get the two mixed together and get off the target when we are talking about trying to export American goods into these foreign lands.

We have to put the things in those areas that those people want to buy and which they can use. That is why I hope we can change that situation a little bit.

I want to thank you very much, Mr. Say, for coming before this committee, and to add that the Portland Chamber of Commerce is right on its toes in having representation here in Washington. We don't have as much of that from the State of California as we would like to have.

Thank you very much for your appearance today.

Mr. SAY. Thank you, Senator, very much.

Senator ENGLE. Our next witness is Dr. Curry W. Gillmore, International Business Machines Corp., of New York City.

Mr. Gillmore, we are delighted to have you here this morning. I observe that you have a prepared statement.

You may proceed.

STATEMENT OF DR. CURRY W. GILLMORE, DIRECTOR OF STATISTICS AND ECONOMICS, INTERNATIONAL BUSINESS MACHINES CORP., NEW YORK, N.Y.

Mr. GILLMORE. Mr. Chairman, members of the committee, I am the director of statistics and economics for the IBM Co.

Thank you for this opportunity to appear before you today and give my views on S. 1729, which is pending before this committee.

First, I want to congratulate you on your studies of the problems of foreign trade and commerce of the United States as viewed in world perspective, as well as on your efforts to develop trade policies in the national interest.

I wholeheartedly endorse the general policy and purpose of this bill because it promotes the vigorous competitive effort to export that we in the United States must have in order to fulfill our responsibilities of world leadership. It may seem strange that a thing so practical as helping American business to "get out there and sell" more abroad is linked to the higher and larger questions of world leadership and freedom. But such is the case.

In spite of the improvement in the past few months in our balance of payments, the United States faces a basic deficit of from \$1 to \$2 billions a year. That is, excluding temporary money flows because of business cycles and short-term interest rate differentials, the United States is paying out abroad \$1 to \$2 billion a year more than it is receiving. Eventually we will have to rectify this imbalance. Increasing our exports is one way of doing this. There are, of course, other ways of accomplishing it—including devaluation of the dollar, quantitative restrictions on imports, increasing our tariff barriers, reduction of military expenditures abroad, reduction of foreign aid, and control of capital exports. But each of these methods entails grave disadvantages to the United States.

Out of all these methods of rectifying our imbalance of payments, only a vigorous expansion of exports is free from serious disadvantages, and consistent with our past efforts and future responsibilities for world leadership. That fact alone justifies the measures in the bill designed to increase the exports of the United States.

But a more subtle, and in the long run equally important, point is involved. Even apart from restoring balance to our foreign payments, it is in the Nation's interest to have a larger stake in foreign trade and commerce.

Though the trade of the United States is larger than that of any other country, it is small compared to the size of the U.S. economy—our merchandise exports are only 4 percent of our gross national product compared with 15 percent for the United Kingdom. Though we are a large force in world markets, our economic stake per capita

is not as large as it should be to give our citizens a better realization of our immeasurably larger stake in world affairs. Larger U.S. dependence on world trade would give the Congress and the President a more interested electorate and a broader political base from which to forge a foreign policy—with respect to both trade and to the larger international issues—and foreign policy that is in keeping with our position in the world today.

In summary, there are two broad reasons why we should support the measures in this bill to make us more competitive in world exports:

First, to get us the foreign exchange earnings to fulfill our responsibilities for world leadership.

Second, to give the American people the economic stake and interest for intelligent and decisive action.

Title I of this bill authorizes an increase in the marketing services that are necessary for closer linking of exporters in the United States with foreign buyers. For many years after World War II, we did not have to make a great selling effort because of the shortages throughout the world and our ready capacity to supply them. But the rehabilitation of Europe and Japan—with their modern plant and equipment and strong marketing efforts—has pushed us into the cold waters of foreign competition. Now we have to sell, and title I recognizes this by authorizing the necessary Government services to support the efforts of private business.

The provision for market surveys of foreign trading areas is extremely important because Americans must learn more about where their goods are needed and what designs are required for the foreign market rather than merely trying to sell standard American products irrespective of foreign tastes.

The provision in paragraph 11 of section 101 for increased participation in international trade fairs can do much to promote and expand our exports. The proposed floating exhibits of U.S. export commodities is an ideal way of generating interest in our products abroad.

One criticism: Establishing exhibits of American goods in major foreign trade areas, section 101, paragraph (4), is a good thing because that is where we are most likely to find our foreign customers, but the provision in the next paragraph (5), for permanent such exhibits in Washington and other cities of the United States seems to me to be carrying a good thing too far. Foreign tourists to this country normally do not want to transact business here and would not visit these exhibits in the United States. Foreign businessmen coming to the United States on business do so for a specific purpose and would normally visit specialized showrooms and businesses rather than these general exhibits in the United States. Therefore, I believe the authorizations of paragraph (5) could better be used for exhibits and other promotion efforts in foreign countries where they are more likely to reach customers for our exports.

Senator ENGLE. May I interrupt you right there, because pertinent to this one criticism I would like to make an observation.

We have trade fairs in some of the foreign countries. I talked recently with a group from California that wants to set up a year-round trade fair in Los Angeles. At one time they had enough space sold to keep them busy throughout a whole year, but they didn't get the land they wanted for the establishment of this trade fair. It was

modeled on the trade fairs that they have in Europe. I was informed about some of those, especially one in Germany that is highly successful.

My interest in this particular subject arose from the fact that I have been to, say, mining conventions. We observed that these mining conventions turn out to be exhibits of mining goods. The American Mining Congress held a convention in San Francisco and occupied all the buildings that they could get ahold of—the auditorium in the Civic Center, and elsewhere—and people went through there by the thousands.

I went to Texas last fall to do a little business, incidentally, for Lyndon Johnson, and while there I visited a show they had on oil drilling equipment. I didn't suppose anybody would take very much interest in that, but it seems to me they had something like 90,000 people there in 3 or 4 days.

I went out to see it. They had their rig strung up. They are not very dramatic pieces of equipment. They had their drill bits and everything. That place was just swarming with people. I came to the conclusion that those people came out there because an industry could find in one place, gathered together, nearly everything in the technology of oil drilling that they wanted to look at.

And that was the premise on which we drafted this bill.

Maybe this shouldn't be done by the Government. I am not sure. I want to think about that a little while.

But in this instance I referred to, this was a private organization, willing to go out to do this, to rent the space to be exhibitors. It is important.

For example, we take all the earth-moving equipment and set aside, say, 30 or 60 days for those people to exhibit their earth-moving equipment; then buyers, not only domestic but overseas, could come to one place and see it all, including foreign buyers of one kind or another. And they have representatives in this country. They have to travel all over the United States, or at least to a number of cities in the United States, for instance, to get a look at what the United States has in the way of machine tools, or prefabricated houses, or, as I say, earth-moving equipment, or any of these other things that people use a great deal—such as mining equipment. We had Mr. Morrow, of Joy Manufacturing, in here yesterday on that.

I think probably that kind of show could go on its own without too much financial support from the Government. Perhaps this section ought to be modified to call for encouragement and assistance of the Secretary of Commerce, rather than have the Government take it over as a Government operation.

I thought because you were on this point I would like to make this comment before you proceeded with your statement.

MR. GILLMORE. Senator Engle, it is not that I think this wouldn't be of benefit to our foreign exports; it is just that I think the Government's money could be spent more effectively on some of the other authorizations for such promotion in the bill.

SENATOR ENGLE. You may have a point there.

In the light of my own personal experience with this matter, I think that private outfits can and will do it. The Department of

Commerce might be able to help them by way of advertising and co-operation with their commercial attachés.

For instance, in getting together the type of things that would be of particular interest, say, to the people in the Far East—if we established an all-round year trade in Los Angeles, these people would like to know what the people from overseas who buy equipment would be interested in. There, your Department of Commerce, through its commercial attachés feeding information from various areas, would be very helpful.

Mr. GILLMORE. I agree with you Senator Engle.

The services provided under title I will be helpful to small as well as large exporters, but title II wisely provides a special emphasis for small business. Small businesses can make a great contribution to our exports because they have the flexibility to satisfy the great variety of needs for goods abroad that are not in sufficient demand for the mass production that many American firms are accustomed to. Only 4 percent of American manufacturing firms export. This should be increased to 10 percent, at least.

I heartily endorse the establishment of a career service to be known as the "Foreign Commerce Corps of the United States," the object of title III, with the primary responsibility of promoting the foreign trade and commerce of the United States. Our commercial officers abroad too often have divided responsibilities, inadequate specialization, and too much rotation from country to country to do the best job of trade promotion.

Trade promotion is a full-time job requiring intimate knowledge of business at home and abroad and close liaison with the business community. The organization for trade promotion should, therefore, be staffed where possible, with specialists working under unified direction and with singleness of purpose. Provision should be made for planned job progression from the simple to the complex and for the professional status to attract men and women of high quality.

That, in my opinion, is the kind of organization and staff we badly need to promote our exports on a competitive basis. This bill answers that need, and that is why I wholeheartedly support the objectives of title III without prejudice as to whether the Foreign Commerce Corps career service be located within the Department of Commerce or the Department of State.

An important objective of the first three titles of this bill is to help companies now operating only domestically to enter export markets. Their lack of familiarity with conditions abroad lends special significance to the export credit guarantees treated in title IV. Export credit guarantees should be readily available at local banks or insurance companies, and the local institution should be able to write a comprehensive guarantee against both commercial and political risk. The cost of the guarantee should be competitive with that offered by other exporting countries, and the insurance should be substantially self-supporting. These provisions are rightly authorized by title IV of this bill.

In conclusion, we must increase the exports of the United States, and this bill, if approved by the Congress, could help us mightily to do that. We must not forget, however, that trade is a two-way street. Export expansion much beyond the point that rectifies the basic im-

balance of our international payments must be offset by increased imports of foreign goods and services into the United States. This means that we must continue to press for more liberal import policies at home as well as abroad. When the shoe pinches at home, we must take positive measures toward healthy adjustment rather than resort to negative measures of import restriction.

In short, we must expand exports, but that is not enough. We must see both sides of this street of trade and understand that it really is a great thoroughfare for peace and freedom in our time. We all know the economic advantages of trade, but we still need to realize more fully how trade promotes interdependence and understanding and friendship. Only if we realize that, will the significance of the bill now before the committee be fully appreciated.

Senator ENGLE. Dr. Gillmore, we very much appreciate your statement. It has been a fine addition to this record.

I may say with reference to your neutrality as between the Department of Commerce and the Department of State that, as I previously emphasized, we think that from the standpoint of operation that a career service in the Department of Commerce to handle the actual operation of the Foreign Commerce Corps would give us the kind of mechanism we need. Our observation has been that for 20 years commercial attachés in the State Department have not had the status and the position to make it possible for them to move forward. It was emphasized here yesterday that commercial attachés are off the main line so far as the State Department is concerned. It derogates their opportunities, they feel, for promotion and advancement as career people in the State Department. Whereas, if we had a professional career corps in the Department of Commerce, those avenues would be opened up and we would get the kind of ability we need, and we would get the promotional opportunities that would make it attractive for people to move into that corps and to make a career of it, at the same time maintaining the general policy direction so far as our foreign trade policy is concerned under the Department of State.

My impression is that we are going to have trouble with the Department of State. No outfit likes to give up anything. They are not going to let loose of these commercial attachés very easily. But we are absolutely convinced that this is the way to do it as a matter of mechanics. And I realize, of course, that you and others may not have a sufficient amount of information or conviction on this point to want to make a statement as to where you prefer to be.

We think that is where it ought to be.

Mr. GILLMORE. I wholeheartedly back the objectives of making this a professional, specialized career service with singleness of purpose to promote exports of the United States, with close liaison with business in the United States, with field offices in the Department of Commerce. However, this can be done—and, incidentally, this bill provides for that, but whether it can be done in the Department of Commerce or the Department of State, the essential thing, as far as we are concerned, is that it be done.

I admit that there must be a much greater effort in the direction provided in this act.

Senator ENGLE. At one time Harry Truman made the remark to me that he spent 90 percent of his time trying to make the Federal Gov-

ernment work, observing that it was the biggest business in the United States. His major problem was to keep the departments in the Government working together rather than spending all their time fighting each other.

We have an illustration of that all the time in the Pentagon. But we also have the same problems elsewhere in our Government.

Sometimes moving a perfectly good piece of legislation forward is made extremely difficult because departments get to fighting over whose jurisdiction is being invaded, and that sort of thing. We are going to try to get around it and get the objectives accomplished, one way or the other.

Mr. GILLMORE. That is the important thing, Senator.

Senator ENGLE. Thank you very much, Dr. Gillmore, for appearing here and testifying.

Mr. GILLMORE. Thank you.

Senator ENGLE. Our next witness is William B. Dale, Stanford Research Institute, Washington, D.C.

Mr. Dale, we are glad to welcome you here this morning. I observe that you have a prepared statement. You may proceed to read it if you wish.

STATEMENT BY WILLIAM B. DALE, STANFORD RESEARCH INSTITUTE, WASHINGTON, D.C.

Mr. DALE. Yes, Senator, I have a prepared statement for the record. I regret to say that the amount of time I have had to prepare this statement has been rather short. With your permission, rather than reading the statement, which is of a quite general kind, I would like to make a few comments on some of the points in the statement and expand on a couple of them, if I may.

Senator ENGLE. Without objection, the statement will be made a part of the record as if read, and you may proceed to summarize and emphasize the points that you wish to make.

Mr. DALE. Thank you.

(The prepared statement of Mr. Dale follows:)

STATEMENT BY WILLIAM B. DALE, STANFORD RESEARCH INSTITUTE

EXPORT PROGRAMS AND OUR NATIONAL ECONOMY

My name is William B. Dale, and I am regularly employed by the Stanford Research Institute. I am appearing here at the invitation of the chairman of this committee, in the hope that I may be able to contribute some small element of background for the committee's consideration in its evaluation of legislative proposals aimed at the expansion of our foreign trade, and in particular at increasing our exports.

I should say, to begin with, Mr. Chairman, that for the past 2 months I have been serving in a personal capacity as a member of a group of private consultants to the President's Task Force on Foreign Economic Assistance. In this capacity I have, among other things, had some participation in the development of legislative proposals aiming at the participation of American private business in the new development assistance programs now being proposed to the Congress. I am prepared to discuss these proposals with you as they may relate to the matters before this committee. Naturally, I am not in any sense speaking today on behalf of any part of the executive branch, I speak for myself only, and appear here solely in a personal professional capacity, although with the knowledge and approval of Stanford Research Institute. I should add that I am not able, either personally or in any institutional capacity, to speak to the merits or demerits of particular trade legislation before you.

Mr. Chairman, the matter of guiding and developing our foreign trade, especially our exports, has in the past 2 or 3 years become a matter of intense national concern, and rightfully so. I should like to speak to two related elements of the problem: first, the relationship of trade to the balance of payments, and secondly, the relation of trade to the problem of economic and social modernization in the new and less developed countries of the non-Communist world.

Trade and the balance of payments

International financial transactions relating to the exchange of commodities account for the largest part of nearly every country's balance of payments. In our own case, trade accounts for about one-half of payments to foreigners and about two-thirds of receipts from foreigners. But trade is not the whole balance of payments, as so many people seem to think. This committee is well aware that our country has had a statistical foreign trade surplus all through the recent years while we have had a balance-of-payments deficit, and have been losing gold from our official stocks. Many elements enter into our balance-of-payments deficit, a number of them in a very complex way, and there is no simple and straightforward answer to the payments problem we have recently been experiencing.

Still, an increase in our exports would clearly help solve the problem, and this is one solution virtually every American would endorse. It would help relieve the pressure on us from many other directions, including that from groups in our economy who, understandably, may wish to reverse our longstanding policy of moving toward freer trade.

In discussing exports and our balance of payments, I simply want to make a few points, most of which may be familiar. First, we must seek markets where they can most reasonably be found. And this means, importantly, in Europe for large volume markets. We must take such steps as are needed to gain or hold markets in all parts of the free world, but Europe in the immediate future offers the largest potential. Elsewhere, except for Canada, markets are limited very importantly by continuing foreign exchange shortages which are likely to persist for years to come. For those countries where exchange shortages are perennial, we must also compete, but we must be prepared to put up with restrictions and other devices erected to foster local industry and conserve foreign exchange for economic development under forced draft.

Secondly, we must gird ourselves for more competitive markets at home and abroad due to more vigorous competition everywhere from other free world producers of a wide variety of products. Price competition is important and is something we must watch carefully, but it is not the only kind of competition we are facing. Design and marketing of goods is also important, especially for durable and producers' goods, which are especially significant for trade with those countries devotedly bent on rapid modernization. I would say that so long as we have an adequate supply of vigorous business innovators, and a continuing output of new products and processes springing from research and development, we are likely to fare quite well in international competition. If and as other countries prove better able to compete in products where we previously held an edge, we must constantly have new products and activities by which we can support our own trade position and our domestic economic growth.

This leads me to one observation which I have thought about a good deal over the past several years, and which may be relevant now. We know very little, as a matter of cold scientific fact, about what determines the direction and vigor of our own economic growth and structure. We are realizing more and more that the factors involved are much more complicated and ramified than we once thought. And we now know that one of the factors of some importance is innovation, especially that now brought about by the highly organized procedures of research and development. Research in turn is heavily influenced by the high degree of initiative exercised by the Federal Government. What does this mean for our foreign trade position? No one knows in a large sense or with any accuracy, because no careful study of these interrelationships has been undertaken, so far as I am aware. But I believe a fairly cogent hypothetical case can be made that the present course of our industrial and economic development, influenced heavily by federally financed research and development, is over the long run not in the direction of a stronger international trade position for our Nation. This is a concept that in my judgment needs and deserves very careful investigation, and in which this committee might well have a very deep interest.

Trade and the development problem

The new foreign economic assistance program, rightly in my view, seeks to create a spectrum of measures to enlist the effort of American business in contributing to the economic modernization of the less developed countries of the world. This means that in various ways the program aims at stimulating U.S. business activity abroad rather than at home. This raises the problem of the compromise to be made between development abroad and added economic growth and competitiveness at home.

My own belief is that if in the final third of the 20th century we do not find a tolerable way of responding to the need for help of the poverty-stricken third of the world, we and our approach to life will be in very serious trouble. Admittedly, this is a political judgment, in which I have no established expertise. But my conclusion is that the American economy must provide for more vigorous domestic growth and more vigorous contributions to development abroad—and that our business system can and must be involved in both.

I regret that a rather short notice before this appearance has prevented me from preparing in writing as much material as I would have liked. I would be glad, however, to try to answer questions that these or other observations may have stimulated.

Mr. DALE. I should observe, Senator, that I am regularly employed by the Stanford Research Institute, but that for the past couple of months I have been a member of a group of outside private consultants, and I have been a member in a personal capacity advising the President's Task Force on Foreign Economic Assistance. I believe it is in that sense that I may be able to contribute some rather general background to your consideration of this legislation.

I am appearing here at the invitation of the chairman of this committee in a wholly personal capacity, and with the hope that I can contribute some background information that may be useful to you, rather than addressing myself to the legislation which you are considering as such.

There are just a couple of points I would like to emphasize. One of them relates to the directions of our economic growth domestically as they relate to this very important export problem that we are now faced with. I think this point that I would like to make is one that has not been made very frequently, even in the very excellent report which the staff of this committee worked so hard on last year and which was published this year, and this is that we are more and more recognizing that the directions and structure of our industrial growth are very importantly influenced by the kind of research and development which occurs in this country. And, further, that the research and development that does occur is heavily influenced by the kind of research and development financed by the Federal Government. I believe something on the order of 50 percent, roughly, of all the research and development done is financed by the Federal Government.

Almost entirely this research and development is dominated by, first, defense needs, and secondly, by needs identified by other agencies, such as the Atomic Energy Commission or the Department of Health, Education, and Welfare.

I think it might be hypothesized at least that during previous decades the kind of new products that were developed by ingenuity rather than by highly organized research and development happened to have very strong foreign markets, products like the automobile in an earlier age, where as it may be that the directions that are placed before us by the kind of research and development now being financed may not produce the kinds of goods domestically that do have a strong export market. I only place that thought before you because I be-

lieve no careful study has really been given to this problem of the directions our economy is taking in the long run, as influenced by research and development, and what that may mean in the long run for our foreign trade position.

Secondly, I would like to make a few comments about one aspect of the new foreign aid program that I have had some connection with in this consulting capacity.

I happened to read just this morning in the current issue of "Foreign Affairs" which arrived, an article by a well-known economist, Jacob Viner, in which he reviews the President's record thus far in the field of foreign economic policy. At the conclusion of the article he says:

There remain many problems to be dealt with, one of which at least is a fundamental one; namely, what role is to be permitted and on what terms of reward, security, and dignity to private enterprise at home, abroad, and internationally in the programs of our Government and in the agreements we reach with other countries. This is, however, not an appropriate year to deal with this issue.

I hesitate to disagree even moderately with Dr. Viner, but perhaps this is a year in which some further thought can be given to the role of private enterprise, and I believe the new aid program does give some constructive thought to that problem.

First of all, one of the concepts which is inherent in this program is the concept that rather than a conflict between trade and aid, we are dealing with many countries in a situation where we ought to develop from aid to trade.

We hope that there is a spectrum of situations where at the low end we may, for a time, have to provide substantial assistance to countries, but we ought, over a period of time, to help them get to the point where they can subsist, they can continue to grow in their economies and in their social systems more and more on the basis of trade and less on the basis of aid.

My own strong conviction is that American private enterprise, as well as local private enterprise, ought to have a very important role in this program of foreign assistance and it ought to be a role that is very closely integrated with the program and not peripheral to it.

I will not try to summarize, Senator, the various details of the measures that are being proposed, which have been placed before the Senate Foreign Relations Committee with regard to the role of private enterprise in this program. But it does seem very important to me that because so many of the skills that are going to be useful in helping other countries to grow economically reside in the private sector of our economy, we must find better, improved methods of mobilizing those skills as well as the capital involved.

One other point; namely, I believe that to the degree we have important private enterprise participation in this program we will find that as countries are able to grow without substantial assistance, we will have business connections, we will have knowledge in our own business community about the conditions in these countries which will at that time help us very importantly in developing our exports and in expanding our trade, as I certainly believe we ought to do.

Finally, as we assist these less-developed countries to grow, they will of course begin to provide increased competition to us, as Europe has

so importantly in the last few years, particularly at least as a result of the success of the Marshall plan.

I think we must always keep in mind that while development on the part of these countries will present us with the competition, it will also present us with larger markets, so that while some American industries or some American localities may feel the brunt of competition, others will take advantage of the larger markets that are provided for our goods.

Senator ENGLE. I like the comment that "We think this is a problem for private enterprise." Our objective is to make it possible for our businesses to compete on an equal basis, as nearly as we can, with their foreign competitors.

There are two things that have primarily made it difficult. One is the wage differential and the difference in the standards of living in some of these countries.

Yesterday we had testimony from Mr. Morrow regarding the differences in wage standards, for instance, in this country and in other countries in which his organization had operating plants. Those were significant differences. They made some of our products produced in this country virtually noncompetitive. That is why so many countries have moved overseas.

Incident to that we had testimony with respect to the problems that American business faced in the credit range. The purpose of this legislation is to help our businessmen in getting better information with respect to what is available in these foreign countries in the nature of trade opportunities. And that is what this professional corps of commercial attachés is designed to do.

Title I of the bill also provides for better information service through the Department of Commerce. The credit features through which we underwrite credit risks, political and otherwise, is one of the features which is somewhat controversial. And yet my observation has been that American business people lose business often because they have to deal on a cash-on-the-barrelhead basis, whereas foreigners do not.

I was in Mexico not long ago talking to some of the Mexican businessmen. They told me that they preferred to buy American equipment, even though it costs more, because in the main it is of higher quality, and in addition to that, because of the proximity of our country, they could get better service for parts and repairs and so forth.

But they would face a situation in which the Germans would offer them a piece of equipment and on a credit basis which would make it possible for them to take it, whereas the Americans said it is cash on the barrelhead. When they faced that dilemma they took the German equipment rather than ours. If we had been able to give them a credit arrangement that was even roughly equivalent to what they had been offered by our competitors, they would have bought the American equipment.

These are the areas in which we are trying to help private enterprise meet competition. We don't regard it as essentially a Government program. We are trying to bolster and help American business slug it out on a fair and equal basis.

At the present time the foreigners are ganging up on us. They not only have industrialized in many of these major countries, and with equipment bought under our Marshall plan, that actually from a technical standpoint their factories are more modern than ours, but they work with a much lower wage rate, such as they have in Japan, Germany, and the Scandinavian countries. Then they turn around with their government stepping in with credit guarantees that make it very difficult for our people to compete.

These are the areas in which we think government can and should be helpful.

Mr. DALE. May I comment on a couple of those points, Senator? Senator ENGLE. Yes.

Mr. DALE. I certainly agree that in those two particular fields, namely the requirements for information and the requirements for more adequate credit terms, there are areas in which the Government can be of very distinct assistance to our business community.

On the credit point in particular I am sure you are aware, sir, that over the whole postwar period Europeans have very often pointed out to us that frequently our business community has had better long-term, very long-term credit availabilities than there is through the Export-Import Bank. By "very long-term" I mean perhaps more than 10 years.

But it is pretty clear that in the past several years European export credit guarantee systems have allowed their businessmen not only to have more credit available in the range from perhaps 1 to 8 or 9 years, particularly, but also as a general rule much more reliable and easier to deal with credit arrangements.

One person of my acquaintance I think described the situation very neatly when he said that particularly with many of the less-developed countries, especially in Latin America, it is often true that credit terms are far more important than price, especially in selling some of the heavier items of equipment which are so important in anyone's trade with those countries.

Senator ENGLE. The Export-Import Bank has been helpful in the big loans, but they haven't been so active. They certainly have been pretty slow moving in the small transactions. That is why we think that the Department of Commerce, operating at the operational level and freeing the Export-Import Bank from a multitude of details, although retaining a general surveillance of the program from the standpoint of credit guarantees, would be a much simpler and better way to manage it.

Thank you very much, Mr. Dale, for your appearance. We very much appreciate your being here.

Mr. DALE. Thank you, Senator.

Senator ENGLE. The next witness is Mr. David Louthan, vice president, foreign operations, Williams Construction Co., Tulsa, Okla.

**STATEMENT OF DAVID LOUTHAN, SENIOR VICE PRESIDENT,
FOREIGN OPERATIONS, WILLIAMS BROS. CO., TULSA, OKLA.**

Mr. LOUTHAN. Mr. Chairman, members of the committee, my name is David Louthan. I am testifying on behalf of the Williams Bros. Co., Tulsa, Okla., of which I am senior vice president, foreign operations.

The gentleman on my right is Mr. Phillip Cox, who is our permanent representative here in Washington.

Our company, founded in 1908, has been continuously engaged in foreign engineering and construction work for about 30 years. During these years we have engineered and built sizable installations in Central and South America, Africa, the Middle and Far East, and Europe, and at the present time we are actively engaged in most of these areas.

I might interject at this point that the importance of our oversea operations can be understood by the fact that approximately 80 percent of our income is derived from these oversea operations.

It will be appreciated that this testimony reflects our views and experience with respect to the oversea engineering and construction of integrated facilities requiring financing of goods and services, and accordingly may not always be applicable to other types of commercial and industrial undertakings.

We are very pleased to see that legislation has been introduced to promote the foreign commerce of the United States and for related purposes, and we are particularly interested to note that title IV of the Foreign Commerce Act of 1961 has as one of its aims and purposes the improvement of the competitive positions of U.S. exporters and contractors, which position has long been weakened by the non-availability in the United States of export credit guarantees comparable to those available to European contractors through their governments; and we are particularly pleased to note that in the realization of the export guarantees aspect of the program it is the stated intention that the services of private financial and insurance enterprises shall be utilized to the fullest extent possible. In this regard it has been apparent for some years that in many cases American know-how, efficiency, and salesmanship was not sufficient to compete successfully as in the past times for oversea business and contracts.

This situation developed in part through the failure of the United States to keep abreast of, and to meet the finance and export credit guarantee programs of, certain European governments evolved to stimulate exports of their country's goods and services and, at the same time, to accommodate the needs of the developing nations of the world for commercial financial assistance to permit building of needed projects beyond their immediate financial capabilities.

As an American-based company we found fairly frequently that we were in the position competitively, it might be said, of sparring with our European opponents with one hand tied behind our backs. Consequently, some time ago we started investigating ways and means to utilize foreign government export credit guarantees and financing, and believe that the committee may find interesting a brief accounting of the experience gained by us as a consequence of this decision.

We found that the ground rules were concise and workable. Briefly, we had to set up a foreign subsidiary in the country in which we proposed to secure the guarantees and finance; we had to agree to utilize to the maximum goods and services from the lending country; and agree to pay equitable taxes on dividends eventually distributed out of profits.

There are two aspects of dealing with the European credit insurance agencies and financial houses which we would be remiss in not

mentioning. The first is their expressed aim, desire, and willingness to work with companies, such as ours; and second, the prompt, efficient, and businesslike manner in which they operate. It is patent that there is no assumption of paternalism or attitude on their part that credit operations are a one-way help to the applicant company.

We are grateful to these countries which have extended to our subsidiary companies the same credit facilities they afford their indigenous companies, and believe they are appreciative that this cooperation has resulted in business which they probably would not otherwise have enjoyed.

At the same time, we feel that our contract volume would have been, and could now be, much greater if we had adequate export credit facilities in the United States since there are many projects where U.S. equipment and construction techniques are preferred, even at a premium cost.

The European credit insurance agencies confine themselves, within the internal framework of allocation and policies of their government, to the issuance of credit insurance policies in favor of the contractors or vendors (for which a premium is paid), guaranteeing that, to the extent stipulated by the policy, the value of the services or goods covered by the sales contract will be paid by the oversea client, or, in his default, by the insurers, and concurrently with the arranging of such a policy, the contractor/vendor makes arrangements with commercial banks or other private financial concerns in the insurer country for financing the project.

When we, as a private concern dealing through our European affiliates, contact credit insurance agencies and commercial banks in Europe with regard to the financing of a particular project, we have found we are able to obtain, in a matter of a few days, an opinion as to possibilities of obtaining financing. With minor procedural delay, the credit insurance agency will give an indication of the credit of the purchasing nation, the credit of the proposed purchaser in that country, the period of time and terms under which credit insurance will be extended, the amount of the project which will be insured, the premium cost, and the percentage of risk to be assumed by our affiliate company in that country. This information is furnished us promptly, even though no definitive arrangement may have been made by us with the purchaser, or even when the purchaser may not have been contacted, as, for example, when we find that proposals on a given project are requested on a financed basis.

This prompt action on inquiries for guarantee insurance and financing is of inestimable value to the contractor/vendor. If the insurance agency will not guarantee credit, further effort and expense in pursuing the business can be terminated. On the other hand, if credit and finance possibilities are favorably indicated by the insurance and financial entities, respectively, we can go to the prospective client with usable terms and conditions and, working in conjunction with such entities, seriously pursue the business in the hope of concluding a contract on feasible terms.

On the other hand, a business concern such as ours and in our line of business, seeking foreign financing in the United States through the Washington lending agencies, often finds itself at an impasse before it starts. The policies of these agencies seem difficult of definition,

as witness a recent press release of one such lending agency announcing a new export financing and guarantee program designed to place American exporters on a basis of full equality with their competitors in foreign countries but which, in our opinion, falls far and lamentably short of the stated objective.

In addition to determining whether or not the U.S. lending agency approached is precluded from making loans of the type required, due to sphere of operations limitations imposed on it through agreements or commitments to other U.S. or international lending agencies, it has been our experience that the contractor must hold nearly a firm commitment from the foreign customer before even an indication of whether or not the U.S. lending agency will make a loan can be obtained. The obtaining of documentation equivalent to an agency appointment or contract commitment from the customer, before U.S. financing conditions can be given the contractor/vendor, especially when European competitors are not obliged to impose such a requirement but are in a position to offer straightforward financing propositions, places an American company under almost insurmountable disadvantages.

In specific illustration of the above-mentioned situation, I would like to describe briefly our experiences in attempting to finance a foreign marine terminal project in Washington to the extent of around \$50 million. The project, to be built for a quasi-government corporation in a country receiving both U.S. Government and international lending agency loans, was of a self-liquidating nature and its amortization was not predicated on any additional dollar burden being placed on the local national income, since it would generate its own foreign exchange during operation.

The first Washington lending agency we approached advised us informally that before it could consider the matter, a second lending agency must have the refusal of the loan. We talked with the second agency and were referred back to the first. The original agency then advised us that although the project looked good for a loan, application for a loan would have to be filed directly by the customer or by our company as an agent of the client, authorized by its government, even though we were only in a negotiating position. We were subsequently informally advised by the Washington lending agency that even if we presented the documents it required, it was doubtful it could act on our application due to the precedence claimed in financing transportation programs for the country involved, by an international lending agency.

It is our firm belief that numerous immediate and long-term advantages would accrue to the United States if political and commercial risk insurance of private loans for oversea equipment sales and construction costs comparable to that now available to firms in Europe was made available to U.S.-based companies, as is envisioned in the bill. Among these advantages are:

1. The Government would not act as a lending agency but only as an insurer or reinsurer. It is a matter of interest that the Government credit insurance agencies in Europe have been profitmaking agencies in that the premiums collected are greater than the total of net losses paid, plus operating costs. This is true even though the premium rates have been low and is attributable to the constantly increasing

amount of export trade covered by and brought about by the existence of such credit insurance.

2. Financing for the major portion of export sales and projects would come from private sources within the United States from specialized entities whose business is essentially finance on a commercial basis. The placing of the administration and flow of funds in the hands of established finance and money experts would generate appropriate business activity for them and, of course, would relieve the Government of any necessity for building up such functions. It is evident that American private industry, in this case the financial houses, working with the vendor/contractors, can render real and efficient service for the type of operations contemplated.

3. None of the money is paid nor given to foreign governments nor concerns, but is used by the vendor/contractor to make purchases and pay costs to deliver to foreign clients the products and installations covered by the purchase/sales contract. In this respect, it should be mentioned that although foreign governments or agencies thereof are frequently the client in the case of large-scale projects, they can be dealt with on the same business basis as any other client. A private concern in a foreign country, dealing on a commercial basis can, we feel, often demand and obtain terms and conditions that governments, for diplomatic and political reasons, cannot.

4. The contemplated financing arrangements do not deplete our foreign exchange balances. When money flows abroad, offsetting debits (i.e., receivables) are immediately created so that no foreign exchange loss is incurred, even at the inception of the financing of the project. Actually, the full amount of financing of the project does not flow out in money, but moves in goods and services. Eventually, the foreign exchange balance is in favor of the exporting nation by reason of the inflow of the profit element plus the interest paid by the purchaser. The total amounts insured are usually shown by the insuring European nation as foreign aid, which, of course, is what it is. The fact that the money is actually provided by private sources does not change this, so the government concerned takes, for political benefit, these aid credits.

5. A further addition to foreign exchange balances of nations exporting under credit insurance arises by reason of taxation. American firms who now do business through European subsidiaries, by reason of credit insurance obtainable through them, must first pay income and other taxes to the European governments; then, after taking tax credits on taxes paid abroad, pay U.S. taxes, reduced by the amount of the credit.

6. A stated purpose of the legislation under discussion is the obtaining of equality with foreign competition in international trade. We, therefore, feel it is appropriate to mention that we believe that benefits have definitely accrued to European governments by reason of the tax structure applicable to companies organized in those countries to engage in oversea trade and have given such corporations a decided competitive advantage. We respectfully submit that these policies might profitably be studied by the U.S. Government.

7. Loan arrangements insured through government credit insurance protect the dignity of the receiving and loaning nation. International transactions on a business basis, we believe, contribute greatly to un-

derstanding and mutual respect among nations. Certainly it is undesirable that American exporters and contractors should be in a position of inferiority with their foreign competitors in this respect.

8. It is common practice in Europe that the exporting vendor/contractor concerns act as coinsurer and cofinancer to a certain extent, usually for 10 or 15 percent of the total value of the project. This is advantageous to the lending nation since it assures the guaranteeing government that its risk will be protected to the best of his ability by the contractor and exporter concerned and it substantially discourages vendor/contractors from pursuing or promoting projects of dubious merit.

9. Successful financing by a contractor frequently is of a regenerative nature. Due to our ability to finance a fairly large project in a Middle Eastern country through one of our European subsidiaries, we were given two additional continuing contracts on substantially the same basis as the first, with the total value of the latter two considerably exceeding the value of the initial project. In this instance we purchased a large amount of specialized equipment and materials in the financing country which will eventually result in substantial spare parts orders and possible future purchases of similar equipment from that country for standardization reasons.

In closing we would like to emphasize that for full advantage to accrue to the United States and its business concerns, credit financing, such as discussed herein, and as we believe is the intent of the bill, should clearly cover insuring of the costs of the entirety of the goods and services required to complete a project. Many foreign projects, such as powerplants, pipeline systems, or port facilities incorporate substantial quantities of exported components installed by the contractor on a turnkey basis. Consequently, credit insurance for only the costs of basic manufactured components will not solve the problem.

It is our hope that coming legislation will provide a U.S. export credit-guarantee program which will not only embrace the same coverage as the European programs but will also, through maximum utilization of private financial and credit evaluation facilities, extend the prompt and businesslike service characteristic of the European agencies.

If this country's export credit insurance program is to be truly competitive with European programs, then a comprehensive range of credits should be contemplated and provided for, and not only those transactions commonly classified as short term and medium term. European programs now provide in one form or another for longer term credits and, as is well known, increasing importance is being given to financial operations in this category. The policies eventually adopted should have flexibility to assure that the program will be competitive in the future as well as currently.

We feel that an export credit guarantee program is long overdue and urgently required for the lasting benefit of this country. Considering the age and sophistication of such programs in European countries, it is difficult to comprehend the delays in developing comparable facilities in America. We deeply appreciate the conscientious efforts of Congress and the administration to correct this situation, which ill befits our posture as an exporter nation.

Senator ENGLE. Mr. Louthan, what has been your experience with commercial attachés in the areas in which your company operates?

Mr. LOUTHAN. Frankly, they have not been very rewarding. I think that is probably due to two principal contributing factors. One is our oversea representation, State Department representation, seems to be geared primarily to what might be termed the old-fashioned concept of diplomacy. I think the commercial activities of the embassies are sort of an appendage, and they are not given the importance that we think should be given.

Certainly there is a marked contrast with the attitude of the European embassies. Certainly they are supposed to be masters in international diplomacy, but at the same time they have a very real and very impressive awareness of the importance of international trade.

Senator ENGLE. You have had to compete with the British, the Japanese, the Germans, and others. How do our people stack up alongside them from the standpoint of giving aid to business?

Mr. LOUTHAN. They stack up pretty poorly. Our people do not seem to be specialists or technicians. On the contrary, the ones you mentioned—British, Germans, Japanese, French—are specialists. It has always seemed to me that they have undoubtedly had considerable training for their duties, and I don't believe this is true of the average commercial attaché that our country sends overseas.

Senator ENGLE. In other words, when you start doing business, say, in a South American country, you don't lean very heavily on the commercial attachés to help you out; is that right?

Mr. LOUTHAN. Once again, speaking frankly, we don't lean on them at all. It has been our policy for some time to keep the attachés and diplomatic representation generally advised of our activities in a given country. But normally when we want to get effective assistance on, say, a knotty problem of some kind, we turn to the commercial attachés of other countries.

Senator ENGLE. That is a startling comment.

With reference to the credit features of this bill, do you think that they are adequate? I notice on one page you refer to financing the whole ball of wax, so to speak. That is in our bill, I believe. Is there anything you would add or suggest that would help?

Mr. LOUTHAN. Quite honestly as I read the bill I think it has sufficient latitude that I think it would cover all of our requirements and problems, provided those charged with its administration carry out what we believe the intent of the bill is, and that is to put us on a fully competitive basis with the Europeans.

There are a few, a very few, a very few parts of the bill which, if someone made what you might call a legalistic or strict interpretation, might result in somewhat restricted practices. But I think, I repeat, that it is in the hands of the people who administer the bill, a program such as this as to whether or not it will be successful.

I think a good example of that is a comparison between the German program and the United Kingdom program. In the case of the German program it is administered on behalf of the Government by a completely private company. You or I could buy stock in this company, for example, in Germany. On the other hand, the United Kingdom program is administered by the export credit guarantee depart-

ment of the board of trade which is a Government entity, and yet both of them work efficiently and with completely satisfactory results.

Senator ENGLE. It boils down to the proposition that if you have competent people operating the program, they can make even a bum law work; whereas if you have poor people operating a program, they can't make a good law work; isn't that right?

Mr. LOUTHAN. I didn't imply this is a bum law. It is an excellent law.

Senator ENGLE. I wasn't implying it either. As a general proposition you have to have good people in these operations and they have to be trained people; they have to be professional people; they have to be people who are willing to make a career of this business. That is precisely what we have in mind. We hope that we can do that, and we think that the way to do it is to establish a separate corps of these people in the Department of Commerce where they will have job security and the challenging opportunities for promotion and advancement, which will make it agreeable to them and will develop for us the kind of technicians and help equivalent at least to what you people in private enterprise are facing in the nature of help to your competitors in foreign countries.

Mr. LOUTHAN. Mr. Cox has suggested that I mention the Export-Import Bank. We did emphasize, I think, to some extent, in our testimony that we are concerned with procedural delays. In our kind of business—

Senator ENGLE. We heard unending complaints about it in our hearings on the foreign trade problems last year.

Mr. LOUTHAN. I am sure you must have, Mr. Chairman, and I am sure you appreciate in our kind of business, which is, as can be normally referred to, a fairly big business, that we don't ordinarily have to much time in which to act on a project. There is intensive competition throughout the world. If we are given, say, 3 or 4 weeks by a client in which to prepare a proposal for a project, that is all the time we get. It is small consolation to us to say that entities over here don't conform to their policies.

Senator ENGLE. And your business opportunities evaporate while somebody is chasing around the world getting information which they ought to have at the tips of their fingers.

Mr. LOUTHAN. That is absolutely correct.

Senator ENGLE. Thank you very much for your testimony. We very much appreciate your appearing here.

We are tentatively scheduling the next hearings on this subject matter for the 17th, 18th, and 19th of July, at which time we will hear the Government witnesses.

The committee will stand in adjournment subject to the call of the Chair.

(Whereupon at 11:47 a.m., the committee adjourned subject to the call of the Chair.)

FOREIGN COMMERCE

TUESDAY, JULY 11, 1961

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to adjournment, at 10:30 a.m., in room 5110, New Senate Office Building, the Honorable E. L. Bartlett presiding.

Senator BARTLETT. The committee will be in order.

I want to apologize to the witnesses who have been waiting here for half an hour or more. We had intended that Senator Javits would be the first witness, but he has been somewhat delayed, so we will proceed.

We are resuming hearings this morning on S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes.

On June 21 and 22 we heard testimony by a number of witnesses from the American business community. We were fortunate to have representatives from a variety of business enterprises appear before this committee, and it should be noted that they all supported S. 1729.

Moreover, the committee has received a considerable amount of mail concerning this bill from American businessmen both in this country and abroad. There have also been letters from trade associations and chambers of commerce. All of the mail concerning S. 1729 has been favorable, recommending passage of this legislation.

In the series of hearings beginning this morning, we will have representatives from the Federal agencies involved in this legislation. On Thursday, July 13, we will hear from the Small Business Administration; on July 20 from the Export-Import Bank of Washington; and on July 21 from the Commerce Department.

Today the first witness will be Mr. Roger W. Jones, from the Department of State.

STATEMENT OF ROGER W. JONES, DEPUTY UNDER SECRETARY OF STATE FOR ADMINISTRATION; ACCOMPANIED BY GARDNER PALMER, COORDINATOR FOR COMMERCIAL ACTIVITIES; AND HARRY W. HEIKENEN, DEPARTMENT OF STATE

Mr. JONES. Thank you very much, Senator.

Senator BARTLETT. Good morning.

Mr. JONES. Good morning to you, sir.

Mr. Chairman, my name is Roger W. Jones. I am Deputy Under Secretary of State for Administration. I am accompanied this morning by Mr. Gardner Palmer and Mr. Heikenen, of the State Department staff, who are acquainted with a good many of the technical

details of our commercial programs and of the implications of this legislation.

If I may, Mr. Chairman, I would like to begin by reading to the committee the Secretary's letter which is in the form of a formal report on this bill, instead of making a separate statement, since this contains the full gist of the Department's views.

Senator BARTLETT. Proceed.

Mr. JONES. The Secretary's letter is dated July 9, 1961, and reads as follows:

DEAR MR. CHAIRMAN: Your letter of May 8, 1961, which was acknowledged on May 9, invited comments by the Department on S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes. The Department appreciates the opportunity to express its views on this proposed legislation.

To accomplish its stated purpose, the bill proposes the following principal lines of action: First, it would authorize a number of specific measures to be undertaken by the Department of Commerce and by our commercial attachés abroad in order to improve the export promotion services which the Government offers to American businessmen seeking to develop export markets; second, it would provide a link for the Small Business Administration to participate through the Department of Commerce in promotion of export trade, third, it would establish a separate commercial service by transferring our commercial attachés and officers abroad from the operational jurisdiction of the Department of State to the Department of Commerce; fourth, it would authorize the Export-Import Bank to provide a system of export credit insurance to guarantee against commercial as well as political risks.

The Department of State is in accord with the primary objective of this bill and attaches great importance to its role and that of the Foreign Service of the United States in furthering our commercial interests abroad. The Department subscribes fully to the statement of policy in the bill:

"It is the sense of the Congress that the peace and economic well-being of the peoples of the world increasingly depends on wider recognition, both in principle and practice, of the interdependence of men upon an expanding exchange of goods and services. The Congress finds and declares that foreign trade represents a strong and vital element in the economic leadership of the United States among free nations."

This statement supports the Department's desire to balance our international payments through positive measures to promote exports, rather than through restrictions on trade and payments which would negate the favorable results and progress made under our postwar economic and trade policies. Moreover, the maintenance of a substantial trade surplus is related to our capability to continue programs abroad considered essential to our national interests.

As the committee will recall, the Department of State in early 1960 participated with the Department of Commerce and other Government agencies in planning and undertaking an extensive export expansion program. This program is being carried out with vigor. Indeed, several of the provisions of S. 1729 refer to improvements in our trade promotion services which were specifically included in this program and already are in effect.

Considerable improvement was achieved in our foreign trade last year, although the world competitive situation gives us no reason to lessen our efforts. In 1960 exports reached an alltime record of \$19.4 billion, an increase of 20 percent over the previous year, and our export surplus was \$4.7 billion, one of the largest in history. This was in part the result of successful negotiating efforts by our ambassadors, together with our economic and commercial officers, working in a unified operation to obtain relaxation of import restrictions against dollar goods. The increased emphasis and priority accorded to trade promotion by the Foreign Service contributed to this improvement.

The Department therefore favors those provisions in this bill which it believes would support and expand upon measures initiated under the export expansion program. The proposals in title I for expanded export promotion services generally fall in this category. For example, section 101(2) which would authorize an expansion in the number and variety of services provided by commercial attachés abroad, is in direct line with our present efforts. The proposal in paragraph (9) of this section for contracting with private firms to undertake

market surveys is one which the Department has advocated. The Department recommends, however, that references to the "Foreign Commerce Corps" be deleted in title I and that the "Foreign Service of the United States of America" be substituted therefor. With regard to the other provisions in title I, the Department endorses them, but defers to the Department of Commerce for comments on provisions of primary concern to that Department.

Similarly, the proposals in title II concerning the Small Business Administration are of primary concern to other agencies with one exception: Section 201(a)(4) provides legislative authorization for the Small Business Administration to be represented at international commercial treaty and trade negotiations and related interagency committees. This provision does not appear to be necessary inasmuch as no special legislative authorization would be required to achieve the stated purpose.

Title III of the bill would establish under the Department of Commerce a separate service abroad to be known as the "Foreign Commerce Corps of the United States." The Department of State opposes this proposal.

As the committee is aware, the proposal to establish a separate commercial service abroad is not new. Such a service existed in the era before 1939 but was discarded in recognition of the increasing interdependence of political, economic, and commercial matters in foreign affairs, and the cross-purposes that developed in operating separate services abroad for these closely related functions. The issue of a separate service was raised a year ago when this Department furnished your committee with its considered views on the subject under cover of a letter of May 6, 1960, from the Honorable Douglas Dillon, Acting Secretary of State. It was then dismissed as being untimely even by some proponents of a separate service, because it was deemed better to improve our existing machinery than to entail the risk, confusion, and problems in setting up a new and separate service. This situation still obtains and has been reinforced by the emphasis which the President has placed in enlarging foreign markets for American goods and services through the provision of added commercial representatives and facilities abroad. Furthermore, the Departments of State and Commerce have been cooperating in developing specific plans to carry out the President's instructions through a series of steps to improve the quality of commercial activities carried on through the Foreign Service Officer Corps. To this end, the Departments have established a joint task force supported by technical working teams, which will concentrate on the problems to which Secretary Hodges will refer in his report to the committee. Under these circumstances and in the belief that we can accomplish the objectives of title III promptly and effectively, the Department strongly recommends that this title be dropped from the bill.

At this time, may I say parenthetically, Mr. Chairman, the somewhat indefinite nature of the Secretary's comment with respect to the problems had to be made in view of the fact that it was impossible for the Department of Commerce to appear with us here today, and we felt that it would be redundant and in a sense stealing Commerce's thunder if we took too much of exactly the same presentation that they wanted to make.

I will however, come back to this briefly in a few minutes in connection with some informal testimony that I would like to give.

Going back to the letter:

With respect to the remaining substantive titles in this bill, the Department favors the objective of title IV to increase the Export-Import Bank's authority for export promotion purposes, but defers to the Export-Import Bank for comment on the adequacy of the bill to further these purposes. While the Department has no objection to the proposal in title V for utilizing local currencies generated under Public Law 480 for financing export promotion programs in foreign countries, it is our understanding that the Treasury Department questions this provision.

The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this report for the consideration of the committee.

The letter is signed by Dean Rusk.

That, Mr. Chairman, summarizes the position which we would like to take. There are one or two, perhaps three or four matters to which I would like to address myself informally, if I may.

With respect to the particular question of the opposition of the Department of State to title III remaining in the bill at this time, ever since the administration took office in January, the top level of the Department of State has been working quite actively with the Department of Commerce, culminating recently in a series of conferences among the two Secretaries and the Under Secretaries and other policy officers in a very strenuous and sincere effort to build the necessary mechanics and machinery within the Department for carrying out a new trade promotion policy with major strengthening of the individuals through whom such a policy is to be carried out.

We recognize that there has been some lack of attention to some of the more important aspects of commercial work abroad. It is our belief that these are primarily concerned with individuals with the capabilities, with the training, with the desires and the aptitudes of individuals. We have turned our attention in this joint effort between the two Departments primarily to the problem of improving the personnel engaged in this work, and the terms of reference under which they will be instructed to work.

To this end then, coming back to this issue of the task force, this group which Under Secretary Gudeman of Commerce, and I on behalf of the Department of State, will presently get underway, has the job of reviewing the whole field and reporting back to us by October 1.

It will concentrate on drawing up plans for commercial specialization within the Foreign Service. It will establish revised personnel policies and procedures, including recruitment, assignment, promotion, training, and provision for ranks and titles that will give commercial officers the status they need to do the job.

In this latter connection, may I point out to the committee that we are contemplating doing something which has never before been done and which may seem a little bit radical. As we have reviewed the whole situation respecting commercial operations abroad, it has seemed to us that some of the trade opportunities in the newer nations are deserving of more concentrated attention and more high-level attention than some of the trade patterns that are established with the older nations which have been firmly fixed by precedent and history over a long period of time.

Consequently, one of the things that we want to examine most closely is the possibility of upgrading the level of work in some of the smaller countries and giving higher grades, perhaps disturbing a little bit the embassy organizational structure in order to see to it that this commercial work is carried on effectively and at the highest level necessary.

Do you want to take over, Senator Javits?

Senator JAVITS. I will defer to the Chair.

Mr. JONES. I would be happy to suspend.

Senator BARTLETT. In that case, we will call Senator Javits, because we know he has a very stringent schedule.

STATEMENT OF HON. JACOB K. JAVITS, U.S. SENATOR FROM THE
STATE OF NEW YORK

Senator ENGLE. We are very glad to have you with us, Senator Javits. If you have a prepared statement, you may read it or put it in the record and summarize it, as you choose.

Senator JAVITS. Senator Engle, I shall proceed very, very briefly on my own.

Mr. Chairman, I first apologize to the committee for the fact that we had a Republican Party conference this morning and hence I was delayed.

Senator ENGLE. What kind of conference was this?

Senator JAVITS. At 9:30, the Republican Party.

Mr. Chairman, first I would like to pay my respects to the Chair for the authorship of S. 1729. The Chair knows that I share his views upon this very major question. To share one's views and to show the initiative to put them in legislation and back them up is a very different thing.

In addition, I am deeply convinced we are in for a tremendous trade struggle in the world and hence the vital importance of this legislation to our foreign policy and to the success of our own peace leadership in the world.

Now, the Chair is also aware of the fact that there is a bill pending before the Senate Committee on Banking and Currency, sponsored by a very large list of Senators, with Sparkman as the principal author and myself, I think, as the primary sponsors, S. 1379. And also there is a bill pending before this committee, S. 852, from ourselves, Senator Case, Senator Keating, and Senator Saltonstall.

I might say that S. 1379, before Banking and Currency, is essentially S. 852 redrafted with a greater emphasis on small business and the whole Small Business Committee backs S. 1379, so that it may properly be considered to replace it.

I make that statement, Mr. Chairman, only in the hope that as this committee, the Committee on Commerce, which has advanced the matter further than we have in Banking and Currency through this hearing, considers this measure, there may be some effort to coordinate the relationships between the two committees so that whatever is brought to the floor may be fairly representative of the views of both committees and hence dispose of, substantially speaking, all the bills which are pending on this subject.

Now, Mr. Chairman, to address myself specifically to the bill, which is before us, I would say that the ideas of expansion of our facilities for export promotion are treated in the two bills, and when I refer to the two bills, I refer to Senator Engle's bill, 1729, and 1379, which for all practical purposes may be described as Small Business Committee's bill, that the difference between them in terms of export promotion is that under the bill before this committee, the expansion is in the hands of the Secretary of Commerce with specifications of a very desirable kind set forth in the bill.

Under our bill, the Small Business Committee's bill, a special council for export promotion is appointed with the chairman being the Under Secretary of Commerce in an effort to coordinate all of the agencies of Government which would have an interest.

I would say, Mr. Chairman, that if we combined the splendid special purposes set forth in the Engle bill with the concept of a special council, for obvious reasons of emphasis and high level attention, which are contained in the Sparkman bill, we would be doing in that regard, in my opinion, the best for the proposal which we are both so much interested in.

I see no major difference in the expansion of services by the Small Business Committee. As to a Foreign Commerce Corps, I know that the witness just preceding me has been testifying on it and will testify on it when he resumes. I do not know how much store the Chair places in that particular provision. I really feel, and I give only my personal opinion and not that of the small business group, which has backed in a sense my bill, the export promotion bill, that we already have a big enough job in export promotion, so that we ought not at this stage to bring in also this rather major and long-standing issue of the jurisdiction of a corps of officers to serve abroad in a new career service in commerce and I would hope that idea might be laid aside because I think it is likely to become the main focus of conflict and thus divert attention from what I really consider is the need for a crash program in exports.

I respectfully submit that to the Chair as one Senator's opinion, and that is the reason why I did not try to deal with that question in my own bill. As I say, if Senator Engle feels very strongly about it, I know him to be a man of tough mind and he is not going to forego it on my account, but I just give that as a suggestion of my own view on the subject.

SENATOR ENGLE. May the Chair say that apparently that is the only point on which there is any major disagreement between the State Department and the Commerce Department. I have a letter from Chester Bowles, which I will put in the record, addressed to me on July 7, 1961, in which he refers to this legislation in very favorable terms, and it also refers to the statement I made before Appropriations just the other day, in which I complained bitterly because the State Department appropriation for commercial attachés had been cut almost to zero. This indicated to my view that the State Department, as well as evidently the Appropriations Committee, had put a very low priority on this area on the basis of their presentation. My view was that although I wanted to transfer these commercial attachés out of State, where I think they will operate better, I want a strong corps, a strong organization in the State Department now, and if we can't move it, we would still have a strong organization. And if we do move it, we still have a strong organization being moved.

Now, I would regret to see this bill flounder because of this particular item, and there may be some way to work it out.

Mr. Bowles suggests that it is not quite fair to make this change without giving the new administration a chance to do a better job with commercial attachés. That is the burden of his argument. He recognizes that they haven't done so well so far. He thinks they are doing better now.

I don't know, but I would suspect that there is some way to get that particular aspect of the case put together. In any case, what I would like to do is to get a strong corps of commercial attachés one place or the other, and then if those things which are, in my opinion, inherently bad about having commercial attachés in the State Depart-

ment prove to be true, and I believe they are true, then we ought to have the authorization in the law someplace where the President or someone else could make the change.

My view is that people in the State Department don't like to be commercial attachés. They get outside the main stream of diplomacy and they think they are on a dead-end street. As a consequence, they just serve out their time, and get out just as soon as they can. Whereas, if these commercial attachés operating overseas were career service people, in the Commerce Department, and clearly identified with an agency where their career service would not be damaged by their participation in this particular field, that would establish the kind of basis for the sort of career service we ought to have. But in the State Department, as soon as they get put over as commercial attachés they probably say, "let me get rid of this as soon as I can because until I do I will never get back in the main line where I can go up the ladder and secure the kind of promotion advantages and the sort of advancement that I want."

There is where I think the shoe binds in this particular field. I agree, though, with the Senator, that other aspects of this bill are too important for us to try to referee this long-term hassle between the Department of Commerce and the State Department. These commercial attachés were in the Department of Commerce prior to 1939, and the experience with commercial attachés in the State Department has not been good. The business people came here and with complete unanimity testified that the present system does not work.

Now, Chester Bowles says he is going to make it work, and maybe we ought to give him a crack at it.

At any rate, I would like to say, I am not inflexible on this matter, even though I appreciate the compliment of the Senator about my being stubborn and strong minded.

(The above-mentioned letter follows:)

JULY 7, 1961.

Hon. CLAIR ENGLE,
U.S. Senate.

DEAR CLAIR: On behalf of the Department I want to thank you for your public statement released on July 4, with respect to strengthening commercial work at U.S. embassies and consular posts. Actually, while I agree that perhaps this work has not had the very highest priority, I believe that the Department has quite a creditable record over the past several months. Luther Hodges and I have talked about next steps. Some of the mistakes of the past years, I am sure, would not have been made had we been here. We are optimistic and enthusiastic and have created a special group to work together through the next several months. The period since January 20 just has not been long enough to give us time to set the house in order.

So far so good, but it leaves us still in opposition to you on a separate establishment of a Foreign Commerce Corps, as proposed in title III of your bill, S. 1720. I am convinced, as are most of my associates, that we should not take such a step without a real and continuing effort to strengthen a commercial staff within the Foreign Service. The disadvantages of a separate service become apparent, I think, when one considers the President's charges to our ambassadors and the emphasis which he has placed upon the essentiality of developing strong economic and commercial outlooks as an essential part of diplomacy. The remainder of S. 1729 should help very much in forwarding these ends.

The Department will appear at the hearings on your bill on July 11, and my deputy, Roger Jones, will be the witness. I hope that you will find it possible to agree that title III of the legislation should not be pressed, at least at this session, in order to give Commerce and State an opportunity to demonstrate what they can do without legislation.

Sincerely yours,

CHESTER BOWLES.

Senator JAVITS. I thank my colleague very much and I think he will help the country by his attitude and I would suggest too that we do join forces in Small Business, Banking and Currency, and Commerce to do something about these commercial attachés in the State Department. Knowing life as we do in Washington, we also know that if a group of Senators put their minds to it they can make people feel more important and make the Department place them higher in terms of the hierarchy of the Department than it is a matter which we ourselves are paying very little attention to. So certainly we could do that and I would gladly joint the Senator in that in any way that is open to us on Appropriations or through our own influence with the Department.

But I do again feel that the Senator's attitude of flexibility upon that point, I believe, will be very helpful to getting the immediacy of action which makes me welcome this hearing so much and which I think is essential in this field of export promotion as well as, I might say, dealing with our imports, which of course is not at this moment before the committee.

Now, I notice that both bills are roughly of the same general character in respect of the use of foreign currencies.

Mr. Chairman, I have left for last what I consider to be the most important question for all, and that is the role of the Export-Import Bank. There is no question about the fact that American exporters are being seriously disadvantaged in their competition with exporters from Germany, that is the German Federal Republic, the United Kingdom, France, other countries, even smaller countries, Japan, where long-term credits are available for buyers, especially in newly developing areas, from exporting sellers with no risk to the exporting seller whatever.

When I say "long-term," I mean 5 years, sometimes even more, and often we are losing business, notwithstanding superiority of quality and superiority of servicing, which are the two big advantages of American exporters, because we cannot give the terms that are required and because financially our own exporters don't feel it proper or are incapable of doing it.

Then this is also a very material bar to the participation of small business because small business suffers the greatest disadvantage through its inability out of its own resources to extend long-term credit.

Now I call attention of the committee to a letter of May 15, 1961, which I hope will be made part of this hearing, if it is not already, and I should like to offer it, if the Chair will allow me to.

Senator ENGLE. Yes, sir.

(The letter follows:)

EXPORT-IMPORT BANK OF WASHINGTON,
Washington, D.C., May 15, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce, U.S. Senate.

DEAR SENATOR MAGNUSON: Receipt is acknowledged of your letter dated May 8, 1961, enclosing a copy of S. 1729 introduced by Senator Engle which has been referred to your committee for consideration and which, if enacted into law, would be known as the Foreign Commerce Act of 1961. Your courtesy in affording the Bank an opportunity to give its comments is appreciated.

This Bank is in complete agreement with the policy and purpose as defined in section 2 of the bill under review.

Title IV of the bill captioned "Export Credit Guarantees" amends the Export-Import Bank Act of 1945, as amended (12 U.S.C. 635) :

First, by striking subsection (c) from section 2 and by inserting in lieu thereof a new subsection (c) which, although it authorizes and empowers the Bank in furtherance of its objects and purposes to guarantee, insure and reinsure against risks of loss arising in connection with export transactions, also directs the Bank, in rigid and restrictive terms as to the methods to be employed in the issuance of its guarantees, insurance and reinsurance, as to the descriptions of the risks to be guaranteed, insured or reinsured, and as to the statutory definitions of the terms to be employed ; and

Second, extends the terminal date for the exercise by the Bank of its functions from June 30, 1963, to June 30, 1968. (The citation in the bill to "sec. 306" appears to be in error and it is believed that it should be "sec. 8.")

In connection with this Bank's recently announced export credit insurance program, it is considered desirable that the Bank, in addition to its authority to guarantee, be specifically authorized by Congress, to insure and to reinsure against risks of loss arising in connection with export transactions. However, the Bank already possesses and is actively making use of guaranteeing authority broader than that provided in the bill under review and not subject to the above-mentioned restricting directives and definitions. Thus the bill, although intended to assist the Bank, actually, if enacted into law as drafted, would curtail the Bank's ability to be of maximum assistance to exporters.

Among the more specific problems raised by the language of this bill are the following :

1. The Bank is not only authorized but is required, "to the fullest extent possible," to utilize insurance companies, financial institutions and others in the issuance and operation of credit guarantees and credit insurance policies. The Bank is now engaged in contacting and in negotiating with interest insurance companies and other financial institutions in this connection. However, such a legislative mandate will render most difficult the negotiation of fair and equitable contracts between the Bank and said insurance companies and financial institutions. In this connection, a mere authorization is considered greatly to be preferred.

2. The Bank is not only authorized but is required to include in its guarantees applicable to the export of goods and related services, both the dollar costs thereof and also the local costs of the installation, facility, or project whenever the said goods or services are an integral part thereof. The degree of relationship between the foreign currency costs of a project and the export of U.S. items varies widely from case to case and the issuance or refusal to issue a guarantee with respect to the foreign currency costs of a project is a matter properly within the discretionary functions of the directors of this Bank. A legislative mandate in this regard is considered ill advised.

3. The Bank is not only authorized but is required to provide that the terms of its political risk insurance shall be on a country basis. Such a requirement prohibits the Bank, in appropriate cases, from exercising any selectivity among products, may require a particular rate for each country, and may preclude all cover for certain countries.

4. Subrogation rights are, by operation of law, rendered automatic and inure to the benefit of the U.S. Government. In many cases it may be desirable that the person to whom payment is made be required to maintain his interest, and, his own name, to assert for the benefit of this Bank, his rights, title, and claims to the underlying currency or other assets with respect to which the payment has been made. To accomplish this desired aim, the exporter credit guarantee contracts of certain other nations customarily provide that the beneficiary, upon receiving payment, agree, at the option of the insuring agency, to assign and to subrogate to said agency all of its rights and titles, or to assert said rights and titles for the benefit of the insuring agency. It is suggested that the subrogation rights arising from payments by this Bank, should inure to the benefit of this Bank, rather than to the U.S. Government ; that this Bank should have flexibility in connection therewith ; and that in order to give the Bank maximum flexibility, it is preferable for its subrogation rights to be founded in and be governed by contract rather than statute.

5. Statutory definitions of terms to be employed by the Bank in its guarantee contracts and insurance policies are considered unnecessary and often unworkable. The definition of the word "goods" in the bill under review ignores the

principle of U.S. origin. The definition of the word "services" in the bill eliminates services rendered in the United States or in transit and prohibits the inclusion of ocean freight. The definition of the term "political risk" fails to stipulate or to describe the actual risks normally covered by such a policy. The definition of the term "commercial risk" may overlap risks heretofore treated by this Bank, and by credit agencies of other governments, as political.

Specific and restrictive directives and definitions of the sort mentioned above are believed to be ill-advised since they would interfere with the wide flexibility now possessed by the Bank to adjust its facilities to meet rapidly changing conditions of the world markets.

On February 6, 1961, in his economic address to the Congress, the President of the United States stated as follows:

"4. *Export guarantees and financing.*—Our Export-Import Bank must play an increasingly important role in our export promotion efforts. Last year the Export-Import Bank announced a widening of the facilities which it offers for extending credit to American exporters. Despite the improvements made, these facilities are not yet adequate, nor are they comparable to those offered by foreign countries, especially those offered to small- and medium-sized exporting concerns and those offered for the financing of consumer goods. I am directing the President of the Export-Import Bank, by April 1, to prepare and submit to the Secretary of the Treasury, as Chairman of the National Advisory Council on International Monetary and Financial Problems, a new program under the Export-Import Bank to place our exporters on a basis of full equality with their competitors in other countries. Also, I have asked the Secretary of the Treasury to initiate and submit by the same date a study of methods through which private financial institutions can participate more broadly in providing export credit facilities."

In response to the above quoted directive by the President, this Bank has formulated and is currently engaged in inaugurating a program designed to offer greater assistance to exporters of U.S. goods, commodities, and services, a program completely consonant with the policies and purposes as enunciated in section 2 of S. 1729. To support the Bank in this effort and further to clarify its statutory authority to embark upon the contemplated program, it is suggested that title IV of S. 1729 so amend the Export-Import Bank Act of 1945 as to authorize the Bank, without restricting procedural directives and definitions, to guarantee, insure, and, through the medium of insurance companies, banks and other financial institutions, to reinsure against risks of loss arising in connection with export transactions.

Section 2(c) of the Export-Import Bank Act of 1945, as amended, authorizes the Bank to provide insurance in a restricted amount against restricted risks of loss.

It is believed that the additional statutory authority requested by the Bank can conveniently be accomplished, first: by striking from the Export-Import Bank Act of 1945, as amended, section 2(c) (1), (2), (3), and (4), and by substituting therefor an authorization to issue guarantees, insurance and reinsurance against risks of loss arising in connection with export transactions, and second: by striking from section 8 the terminal date "June 30, 1963," and by inserting in lieu thereof the terminal date "June 30, 1968." In the original Export-Import Bank Act of 1945, the date limiting this Bank in the exercise of its functions was "June 30, 1948." By successive amendments, the date "June 30, 1948" was changed first to "June 30, 1953," later to "June 30, 1958" and finally to the present date, "June 30, 1963." In order to give to the Bank continuity of operation, and to enable the Bank to continue with maximum efficiency to carry out the objects and purposes for which it was created, the additional extension is recommended.

The foregoing recommendations and suggestions correspond to the recommendations and suggestions made by this Bank in its letter dated May 15, 1961, addressed to Senator Willis Robertson, chairman of the Banking and Currency Committee, in connection with the consideration by that committee of S. 1379 (introduced by Senator Sparkman and entitled "National Export Policy Act of 1961").

It is the opinion of the Bank that if title IV of S. 1729 be revised substantially as suggested above in such a manner as to increase, rather than decrease, the flexibility now possessed by the Bank, the bill, as revised, will enable the Bank to offer to exporters of U.S. goods, commodities and services, directly and through the medium of private banking and insurance companies, export credit

guarantees and export credit insurance comparable in all respects to the assistance given by the governments of other nations to their exporters.

The Bank feels that comment on the merits of the remaining sections of the proposed legislation should more appropriately come from other agencies of the executive branch of the Government more immediately concerned. Accordingly, no comment is made on title I, II, III, V, and VI of the proposed legislation other than to state that in our opinion the provisions thereof do not adversely affect the operations of this Bank.

For your consideration, we attach hereto a draft of proposed amendments to the Export-Import Bank Act of 1945, as amended.

Sincerely yours,

HAROLD F. LINDER,
President and Chairman.

TITLE IV, EXPORT CREDIT GUARANTEES

SEC. 401. The Export-Import Bank Act of 1945, as amended (12 U.S.C. 635), is hereby further amended by—

1. Striking therefrom Section 2(c) (1), (2), (3), and (4) and inserting in lieu thereof the following:

"(c) (1) The Export-Import Bank of Washington, in furtherance of its objects and purposes under this Act, is authorized and empowered to guarantee, insure and reinsure against risks of loss arising in connection with export transactions.

"(2) The Bank may issue such guarantees, insurance and reinsurance to exporters, insurance companies, financial institutions, or others, or groups thereof, and where appropriate may employ any of the same to act as its agent in the issuance and operation of such guarantees, insurance and reinsurance, and the adjustment of claims arising thereunder."

2. Striking from Section 8 thereof the date, "June 30, 1963", and inserting in lieu thereof the date, "June 30, 1968".

Senator JAVITS. It is on S. 852, the bill which I introduced. It is addressed to Senator Magnuson, so it is readily available. It says that it does not need statutory authority.

Shall I offer that for the record?

Senator ENGLE. Yes, we will put it in either now or when the Export-Import Bank comes in, whichever seems more appropriate.

Senator JAVITS. I would like to put it in now.

Senator ENGLE. Without objection, it will be made a part of the record.

Senator JAVITS. They in the same breath say they need no legislation and then in the next breath say they need legislation.

Now, Mr. Chairman, it boils down to this. If they did everything they say they can do, and everything they say they want to do, then we would have a truly competitive, that is the Export-Import Bank, we would have a truly competitive system of backing our supporters financially.

The difficulty is that the things that they say they have power to do or they say they would like to do, they don't do.

Now as far back, Mr. Chairman, as March of this year, the Export-Import Bank issued a public statement, in which it said it proposed to reform, for example, its short-term guarantees, to make them comprehensive and all-risk guarantees.

It had to do that, it said, in coordination with insurance companies and it has been trying, and I have myself facilitated their efforts in that regard, to negotiate with banks and insurance companies in New York and other financial centers ever since that time in the effort to make good on what it said it wants to do, so far without results.

Now, my practical suggestion is this: I believe that this is so essen-

tial to an export expansion drive, that we must give the bank the authority to make its own guarantees directly, even without underwriting the guarantees of commercial institutions if it cannot find commercial institutions which will write the business.

Now, this could be done either directly by the Export-Import Bank or it could be done through two alternative plans, one of which bears the name of a man named Scafuro, which is the plan put out by the international section of the New York Board of Trade. His name is Francis X. Scafuro.

Senator BARTLETT. Yes, sir, he appeared and testified.

Senator JAVITS. That is one plan for a private enterprise cooperative guarantee corporation.

Another plan was that authorized by David Rockefeller of the Chase National Bank, Chase-Manhattan Bank. David Rockefeller's plan is to enlist institutional investors as a source of export credit with the institutional investors taking over after 18 months from the established means of financing today.

Now there are three alternatives, either give the Export-Import Bank directly the residual authority to guarantee without getting tied into anybody if it cannot find anybody who will do it; second, to authorize some kind of a private enterprise cooperative, mutual corporation, kind of a mixed Government-business corporation.

We have quite a few examples of that in Government. There is nothing sensationally new. The FDIC and other agencies are generally of the same type.

Third, the possibility of facilitating by legislation the Rockefeller plan, which will bring institutional investors into the underwriting position after a period of time of 18 months, or whatever period of time might seem to be a suitable cutoff date for the utilization of the existing financing media.

Now I would strongly urge, Mr. Chairman, the consideration of all those ideas. I rather think, from my own governmental experience, that you will probably have to take, because this needs action and needs it promptly, to begin with, alternative No. 1; that is, the Export-Import Bank, giving it the authority and letting it make such arrangements as it possibly can, while at the same time, not shutting the door to the further maturity and authorization through particularized legislation of one or the other of these plans of David Rockefeller's or Francis Scafuro's. But to me, Mr. Chairman, the key to this legislation is not who will manage the Foreign Service offices, although I think that is important, I think we can get a lot done in that if we ourselves as Senators put our back to it; but I think the key to export expansion legislation is in (1) the promotional aspects, including trade fairs and all other media, and (2) the facilitation of financing, and those are the two things we must accomplish in this kind of a bill.

Now, there is one other committee that I hope will be tied into this committee's work as long as you have taken the lead—for which I am delighted, as I just want to see that it gets done—and that is the Agriculture Committee.

They have a big stake in this through the enormous interest of the agricultural community in exports, about \$5 million a year in agricultural exports. There has also been referred, and Public Law 480

and all their other activities which they always have to be careful about competing with commercial exports, there also has been referred to them my bill for the authorization of the use of foreign currencies to enable our greater participation in trade fairs, both in the United States by foreign nations and by us in foreign nations.

That bill is S. 3573. I think I reintroduced it this year, but I do not happen to have the current number right here before me, of the last Congress, S. 3573, and I would hope very much that this committee would have a look at that bill so that we may put our best foot forward in terms of utilization of these foreign currencies, which we have piled up in very large amounts to stimulate the trade fair activity.

Senator ENGLE. What you would do is use the blocked foreign currency for the purpose of going forward with more trade fairs?

Senator JAVITS. Not only on the part of the United States, if I may say to the chairman, but also letting these nations themselves locally to use that currency to exhibit in the United States, which is a rather new idea, but it is something that the committee ought to consider. But here is a utilization which can move both ways. In other words, they have certain local expenses to develop, transport, et cetera, their exhibits in this country.

Now, they may be able to manage dollar costs and find it very helpful to be able to use some of their own local currency for the purpose of paying indigenous costs. We, on the other hand, pay our dollar costs here but use indigenous currency for the trade fair in the local country.

Senator ENGLE. Your idea here is by making that possible for them, they create dollar balances which make it possible to buy American goods?

Senator JAVITS. Exactly right.

In any case, I certainly think that again ought to be tied into one of the two parts of this measure, which are so critical to me, one the promotion and two, facility of finance through the Export-Import Bank.

Senator ENGLE. May I inquire of the staff, do we have reference to trade fairs in this bill?

Mr. LEVIN. Yes.

Senator ENGLE. This particular suggestion is not embodied.

Senator JAVITS. I think it might easily be, if you reexamine the utilization of foreign currency section and enable it to encompass the trade fair idea.

I suggest it because I think the structure of the bill is such that these ideas which we have been discussing could be accommodated within the structure of this bill.

Senator ENGLE. With reference to trade fairs, I would like to emphasize that here again, I believe that these trade fairs ought to be handled through the Department of Commerce.

Senator JAVITS. Mr. Chairman, there is no question.

Senator ENGLE. But the State Department gets into it in several of the State Department trade fairs in this way: they are putting on a propaganda show instead of trying to sell something, and there is no use showing refrigerators and television sets and electrical gimmicks in some country that needs hand shovels and the simplest type of equipment to fit into their existing economy.

My view is that the Commerce Department would put on trade fairs for the purpose of selling things.

Now I am not going to object to the other either, I think it is good to have some of those fairs where we want to show the technology of America to major advantage in highly industrialized nations like Japan, Germany, and elsewhere, but talking about these developing countries, as you called them now, it is more important to get the things over there in trade fairs that they can use and they can buy with their limited resources than it is to impress them with how smart we are.

And I hope that when we get this trade fair thing put together, we put the emphasis where it belongs with reference to the business of expanding American exports, which is to sell goods.

Senator JAVITS. I could not agree more, Mr. Chairman, and may I add, too, that is the best propaganda you can do because people abroad respect us when we are businesslike, practical, and get right down to hardpan.

Senator ENGLE. There is one further question I would like to ask. In the bill that you have introduced, Senator Javits, and you have been a leader in this field and have given it a great deal of thought, do you think there are significant advantages in the small business area implicit and included in your bill, and that is Senator Sparkman's S. 1379, which is, I take it—

Senator JAVITS. The same, a redraft.

Senator ENGLE. Significant advantages as far as correlating with small and independent business, which are not included in the legislation I introduced, S. 1729?

Senator JAVITS. I would suggest, Mr. Chairman, rather than narrowing it to the confines of my bill or your own bill, that you instruct your staff to confer with the staff of the Small Business Committee, because this bill is essentially a small business bill—our objectives are the same, and therefore let us couch the small business participation section in the best possible terms to do that job.

It is a great opportunity for small business and I believe our objective being the same, it is entirely susceptible of agreement as between this committee and the Small Business Committee.

Senator ENGLE. Well, certainly we will try to do that. Of course small business needs the help most, because small business does not have the facilities to get into this field as actively and as intelligently as bigger business organizations that have their own people overseas and have had broad experience in the matter of international negotiations and trade. There is a vast reservoir, it seems to me, of small business waiting to get into the export markets.

Senator JAVITS. May I commend to your staff the hearings of the Small Business Committee on this very subject?

I happened to preside over those in New York—they were held all over the country—as to the participation by small business in the export trade. We are very anxious to encourage that and as the Small Business Committee is not itself a legislative committee, it will fit in perfectly in cooperation with the Commerce Committee in terms of this legislation.

Senator ENGLE. Thank you very much for your statement. I very much appreciate your appearing.

Senator JAVITS. Thank you.

Senator ENGLE. Mr. Jones, it was courteous of you to permit Senator Javits to interrupt your testimony and I believe that you were dealing with the matter of commercial attachés, were you?

Mr. JONES. Yes, I was dealing with the agreements that have been reached between the Department of State and the Department of Commerce, Senator Engle.

Senator ENGLE. Do you now have a firm agreement?

Mr. JONES. Yes.

Mr. ENGLE. Has it been reduced to writing?

Mr. JONES. It has been reduced to writing to which I will come in a moment, if I may.

I had referred, just as the Chair came in, to the fact that the Secretary's letter, which was the basis of my testimony this morning, was not specifically in detail about the terms of reference of the groups which are working on this agreement between the Department of State and the Department of Commerce. We felt that this was an issue to which the Department of Commerce would wish to speak and the hearings schedule was so arranged that we couldn't both be here today. I do want to report that we do have full agreement, that the work will be carried forward under general supervision of Under Secretary Gudeman and myself, as Mr. Bowles' deputy, an assistant secretary from each Department, actually sitting down with the task force, which are going to work on this whole problem of improvement of personnel: their training, their recruiting, their promotional activities, the building within the Foreign Service of what amounts to a far-reaching and sound commercial specialization which will do exactly the kind of things which the Chair referred to when he was speaking to Senator Javits.

Senator ENGLE. Do you think that can be done?

Mr. JONES. I am absolutely convinced it can be done, Senator Engle.

Senator ENGLE. The thing that troubles me is that it seems to me that if I were in the Foreign Service and I got an assignment as a commercial attaché, that I would conclude that I was in a blind alley. If I went into the Foreign Service, I would go in the Foreign Service because I wanted to go up the ladder in the State Department and become a career officer in the field of diplomacy and Foreign Service work, and it just seems to me that any time a person with that sort of motivation is put over into the commercial end as a commercial attaché, he sees himself diverted from the main line of what must necessarily be the course that he would take in order to go forward to secure promotion and to make his career the sort of thing that would lead to that dedication to that career in the first place.

It just occurs to me that you are working against human nature, whereas if you put these commercial attachés over in the Department of Commerce, which is a natural environment for them, they can see that the road for advancement leads eventually back into the Department in Washington, probably in supervisory capacities, and so on up through the Department of Commerce eventually to places of preferment, and the expedition of a career in that particular area.

This is the reason that it seems to me that this particular type of activity is inherently incapable of the kind of action that we had hoped to get out of it.

Now, I know the State Department wants to try—and I recognize that departments don't like to give up anything—but I just have grave misgivings about the ability to get the right kind of men under those circumstances.

Mr. JONES. May I address myself to the Chair's comments?

Senator ENGLE. Yes, sir.

Mr. JONES. In the first place, Senator Engle, I think we have got to recognize that the traditional concepts of diplomacy which have been pretty much the bible of the Foreign Service Officer Corps have got to be broadened. We have been broadening them to a very considerable extent in recent years, but we haven't gone as far as we should and as I am convinced that we can.

In the first place, I think we must recognize that America is now overseas to stay in a good many fields besides the traditional fields of diplomacy. Among the more important of these fields is the field of trade. Trade promotion and our assistance in developing the new nations by trading with them make it necessary that we have as a part of the ambassador's team in every country, people who want to make their careers in a kind of commercial service.

This work goes beyond the traditional concepts with respect to what commercial attachés are engaged in. It goes way beyond the concept of the old commercial officer corps of the Department of Commerce which came into the Department of State under the reorganization plan in President Roosevelt's administration in 1939.

I would say, however, that some of the officers who came at that time to the Department of State have found that their interests in the commercial aspects of our foreign diplomacy have been something to which they could adhere with great conviction throughout the course of their careers.

Just to cite three examples, we now have serving as our deputy chief of mission in London, Mr. Lewis Jones, who came from the commercial service of the Department of Commerce. Prior to that he was Assistant Secretary of State for the Near East and South Asian Affairs.

We have available to us for consultation a recently retired career Ambassador, Mr. Don Bliss, who is also an alumnus of the Department of Commerce.

Our Deputy Assistant Secretary for Economic Affairs for our Far Eastern Bureau, Mr. Avery Peterson, for many years in Canada as a commercial officer of the Department of Commerce, is another of this kind of hard core of experienced commercial officers on whom we can rely.

Now we have got to do a number of things, sir, if I may go on. In the first place, we have got to offer this as a specialization. We have got to sell it to the men who want to come into the Foreign Service Corps at the bottom. This, I have no doubt that we can do.

I have had some fairly extensive personal conversations in the few months I have been at the Department with some of the leaders in our business schools. I have tried to find out what kind of interest there is among the students at such universities as Cornell and Harvard and the University of Pittsburgh and MIT, in coming into Foreign Service with the idea of spending their life essentially in the commercial specializations and the related very important departmental fields of economic matters, economic policy, and the enuncia-

tion of foreign economic policy as developed. There has been quite a heartwarming response.

I talked recently when sitting with our Board of Examiners on oral examinations for new Foreign Service officers, in Boston, with two young men. Both were very much interested in this side of the Department's work. I tried to discover not only their motivation, but also how we can accommodate to that motivation with careers which satisfy such people, as an integral part of the Foreign Service Officer Corps.

We are strengthening our steps for increased training in this aspect of our work. Our training goes beyond the normal commercial attaché duties or the sort of things which commercial officers have sometimes done when they have served as consuls in the performance of ministerial functions.

We recognize that as time has gone on the importance of commercial activities has perhaps developed slowly, but it is now here to stay. It was nailed down by the President's message on balance of payments that came to Congress, as I recall, in early February.

The next thing I would like to say in response to the Chair's comments is that if we get properly trained, and properly motivated, and properly interested kind of young officer, we don't think that the temptations, if you want to call it that, of moving over into the political sphere, will be so great that he will give up his commercial specialization.

The impression has prevailed around Washington in recent years that the Department of State was not a very profitable place for a professional economist to work, that he had no career there. I disagree with this. We went perhaps too far at the time of the Wriston program in designating as Foreign Service officer jobs some of the jobs in which continuity of service is very definitely required. Some of these are higher economic jobs in the Department.

We are now moving in the other direction and trying to establish some of these positions as positions in which a man can serve for a greater period of years than the normal tour of duty policy would permit. Related to that also we are lengthening tours of duty in the field, a step which is particularly important for commercial officers.

We are reexamining the whole concept of what the Government expects of American business when it wants to operate overseas, and the reverse side of that coin, what can American business expect of its Government if it wants to operate overseas. And we are trying to build a better climate of understanding, a better preparatory kind of material which can be made available to American businessmen.

As I indicated when the Chair came into the room, we are moving toward a policy of upgrading of a number of the jobs in the smaller embassies, not tying them to a strict pyramidal type of organization chart in terms of the level of the officer who will serve in the commercial job. We do not think that it is out of order at all to have the normal chain of promotion for almost any commercial officer to go right straight up to Foreign Service officer grade one and thence into career minister rank.

Senator ENGLE. How do we get them high enough on what I call the pecking order so that they are not 15 levels down. Our testimony before this committee indicated that these commercial attachés are

so far from the top that they simply get no access at the level necessary to implement major programs?

Mr. JONES. I must say, Senator Engle, I find this criticism a little bit hard to understand. If we look at the progress that has already been made in the last couple of years. I grant you that in the past, the rank of a good many of these officers has been down around grade 4 or 5 level. But we have moved increasingly as the opportunities to work on presidential programs in the past three administrations have presented themselves to upgrade the level of commercial officers. We believe that we will have FSS-01's and FSS-02's in all of the centers in which trade opportunities seem to be worthy of that level of attention. This is getting up into what on the civil side of the Government is called the supergrade ranks. These are the ranks above \$15,000.

There will be undoubtedly opportunities for appointments of economic ministers in some posts. I think we have to make the most of the opportunities which present themselves to use our American consuls and consuls general to work in the field of trade promotion and to work with American businessmen.

Senator ENGLE. How do you propose to define their function in language so that they won't be constantly involved in writing economic reports or monkeying around with something that doesn't get right on the main point, and that is, how do you expand American business? The business people who came here and complained to us about the way the commercial attachés operate say that they are so burdened with a lot of studies and other extraneous matters, that if you try to talk to them about how you could sell more tractors or something like that, they simply don't have time to do it. Their preoccupation is with matters that are not directly related, except in the broad sense. It may be some sort of economic study or something like that, projection of what some countries can do or possibly could do, and which may over the long haul have some influence, but actually when an American businessman comes into a foreign country, he wants to get through the redtape in a direct and very practical fashion.

Mr. JONES. There are three things which we can do and which I believe we are doing, sir, to answer your question. The first is to get more people who are occupied in this side of the business.

The second is to have on the statute books, as a matter of national policy, the kind of statement with respect to trade promotion and export promotion which is contained in the Senator's bill.

The third thing which we can do and which is long overdue in my bureaucratic judgment, is completely to overhaul with the Department of Commerce the present system of mandatory reports.

As I think Mr. Bowles indicated to you, I do not know whether it was in his letter or whether it was in conversation, one of our problems has been that our reporting requirements have really outrun the need in one sense of the term. We are getting too many reports on the wrong subjects. This is one of the topics to which our task force will address themselves, so that we don't have officers tied to their desks working at problems of preparing reports which may have a highly marginal use when they come back here to the United States.

Senator ENGLE. That is exactly what I have in mind.

Mr. JONES. Now, there are some aspects of this which are going to take a little time to straighten out. As I am sure the Senator knows from his long experience in Washington, one of the hardest things we have to do at our end of the avenue is to overcome something which has a long tradition. In the absence of careful review every so often it is assumed to be valuable, just because it has been in existence for a long period of time. We shall review this situation carefully. I think that the new approach that is being taken by the Department of Commerce, the new approach which is being taken by the Secretary and Under Secretary of State, augur very well for our success in getting a reporting system which is more realistic, more responsive to the needs of American business.

We are still going to have to do some of the general reporting kinds of things, yes. We are going to have to have trade lists, we are going to have export-import statistics. We need to have a good deal of data on the level of commercial activity in both consumer and capital goods in the nations with which we trade. There has been some over-emphasis on the shortcomings of the Service and not enough attention paid to the fact that we do get a good many plaudits for the imagination and forthright way in which our new officers are approaching commercial problems.

Another thing which I would like to mention to the committee is a plan which we have in the Department of State for the establishment of 10 regional commercial advisers. They will not be tied to any one country, but they will range broadly over the major areas of the world with which we trade. They will be recruited at a high level, they will come primarily from American business and industry.

We will work closely with the Department of Commerce to get these people released by business to go overseas. They will sit down as senior advisers to a whole group of Ambassadors and commercial officers, concentrating on the problem of American trade opportunities and similar matters.

Senator ENGLE. For instance, you had one in the Pacific, I take it?

Mr. JONES. Yes; we will probably have one in Tokyo, have one on the Continent in Europe, one or two in Africa, perhaps two in Europe, and so on. As soon as we know what our appropriation situation is, we plan to get going on this program within this next year.

The Senator referred a few moments ago to Mr. Bowles' reference to the Senator's comment with respect to our appropriations situation. I would like to go back to that, if I may, just a moment, sir, and insert in the record at this point, if it is permissible, the statement which the Secretary made to the Senate Appropriations Committee, when we appealed the action of the House.

The Secretary said this:

The Department attaches special importance to the export expansion program and requests that \$848,217 be restored to enable it to carry on the strengthening of trade promotional services conducted abroad for the American business community. An impressive start has been made in improving commercial work in the Foreign Service since inception of the export drive a year ago. This has been done principally with existing resources. If this momentum is to be maintained to the benefit of our export trade, it is essential that our commercial staffs be increased.

The President clearly indicated in his message on balance of payments and gold of February 6, 1961, that to correct the persisting deficit in our balance of payments, "we must place maximum emphasis on expanding our exports * * *

and the Government must play a more vigorous part in helping to enlarge foreign market for American goods and services." To further this aim, the President said: "We will promptly increase our commercial representatives and facilities abroad. This is a joint program of the Departments of Commerce and State which must proceed with drive and conviction in order to produce effective results. The budget which has already gone to Congress requests \$1,250,000 for the State Department to add 41 Foreign Service commercial attachés overseas, together with 48 experienced foreign nationals and supporting American staff."

This appeal is directed to restore the number of commercial positions to the level indicated in the foregoing Presidential message.

Senator ENGLE. Do you desire to have the rest in the record?

Mr. JONES. I don't think so, just this quote, if I may, Mr. Chairman.

Now what has happened, there is some kind of a lag here. I cannot explain it, I have not been in the Department of State long enough to understand exactly what has happened, but I believe there has been some overlooking of the very substantial increases which have been made in the commercial staff over the past couple of years.

The last administration began to be somewhat disturbed about this and the present Secretary of the Treasury, who served in the Department of State in the last administration, gave a great deal of personal attention to economic and commercial matters. The result has been that the commercial attaché complement of officers has increased quite markedly since the fiscal year 1958. In fact, we have come up to almost 89 percent increase over this period of years, if we get what we asked for in 1962.

In 1958, there were only 91 commercial attachés at the officer level. In the 1962 budget, we have a provision for a total of 172 or a total increase of 81. There has been a similar increase in clerks and local employees who can do a great deal to forward this type of operation.

The number of local employees has gone up from 181 to 298.

Now this is just part of what we are driving at and I believe that there has been some lack of understanding as to the basic vigor with which this program was moving forward.

I think the final thing I would like to say, and then subject myself to such questions as the committee may have, relates to the whole issue of how best to go about being sure that we have the necessary admixture of both career and people and people who are not essentially career, but who can make a very real contribution to this effort. Under the authority of the Foreign Service Act, it is our proposal to appoint as needs dictate, men with business experience, who do not intend to become career officers of the Government, but who are willing to come in and serve for 2, 3, 4, or even more years, as Foreign Service Reserve officers.

In fact, we are already doing this with the Department of Commerce. We are reaching out to find people who can come in and give 4 or 5 years out of their business lives to do this very kind of thing.

The progress has not been perhaps as rapid as it might have been but I think we have to consider that we have not had a clear-cut statement of policy from the Congress on this score, the kind that will be provided by the Senator's legislation, nor have we even had it in connection with such things as trade fairs.

The Chair referred a few moments ago to the fact that there had been a great deal of emphasis on the psychological or propaganda side of trade fairs. Well, this is in response to the kind of mandate which was laid down by the Congress. Certainly we in the Department of

State, and I think I can speak also for the Department of Commerce, and other agencies would welcome reexamination of the basic tenets of the now governing statute with respect to trade fairs to see if we can't beef up the concept of "let's get stuff over there people can buy"; or "let's be salesmen."

Senator ENGLE. I like the trade fairs that demonstrate the height of American technology, but we oughtn't to do that to the exclusion of these other things and especially we oughtn't to do it in the area where we have these developing nations.

Mr. JONES. I quite agree, sir.

Senator ENGLE. What is your basic law under which you have those trade fairs?

Mr. JONES. Public Law 860, as I recall, which I think was called Trade Fair Participation Act or words to that effect. I have forgotten the exact title. Our staff, together with the Commerce staff, and the staff of the committee, would be glad to take a look at that, if the committee would wish to. I don't think we need to insert anything in the record, but I think the staffs could get together and perhaps call to the Chair's attention the emphasis of that act and the ways in which it might be changed, as referred to by Senator Javits and the Chair in their exchange a few minutes ago.

I think that is the main burden of what I would like to say this morning, Mr. Chairman, except to repeat the Secretary's hope that the committee will defer action on title 3 of the Senator's bill in order to give us an opportunity to see whether we can satisfactorily demonstrate to the Congress and to American business that this job can be done within the framework of the Foreign Service, to its improvement as well as to the improvement of our trade opportunities.

If we fail, we will be honest enough to tell you that we have. Then we can consider what other steps should take place. We honestly believe that we can provide within the realm of Foreign Service a better career ladder, a more satisfying set of experiences with these officers being a basic part of the Foreign Service Officer Corps, than we could if we reverted to the old system of having just a limited foreign commerce corps within the Department of Commerce.

Senator ENGLE. You say that you think you can, but why do you believe that this title 3 would not do a better job? We have some 13 different agencies, of one kind or another, that operate under the general jurisdiction and under the general policy direction of our ambassadors, but who work directly out of other departments and agencies, so it is not unprecedented by any means.

Mr. JONES. It is not unprecedented; no, sir.

Senator ENGLE. The question is, Which system works best? That is the way I look at it and the system that we put in after 1939 has not worked very well.

Now what leads you to believe that what we propose is not better than what we now have?

Mr. JONES. I think three things, sir; in the first place I think the psychology of the system has been wrongly influenced by events of the last 20 years.

This consolidation had scarcely gotten underway, before we had to go into the defense buildup for World War II. Then during World War II, trade, as the Senator knows, practically came to a stop except within the concepts of what it took to win the war.

Immediately after the war, we were engaged in trying to get a prostrate world back on its feet, and the concept then was more on aid than it was on trade. It has only been in recent years that we have come back to a realization that if America is to maintain its position as a leader of the free world, it has got to trade with the rest of the world, and that we have got to get over perhaps some of our old traditional, and now somewhat timeworn, concepts about how to do this on a restrictive rather than on an expansive basis.

These are the things which I think have interfered with the effectiveness of this service. And now that we have a new approach, a new philosophy, a new sense of what the basic requirements are, I think we can move forward to do it. And as I said here earlier, I am convinced that all of the basic concepts of diplomacy today must be oriented to the assumption that trade and trade promotions, the economic intercourse between the United States and other nations of the world can best be performed within the context of our career Foreign Service.

Senator ENGLE. Did I understand you to say earlier that you had come to an agreed position with the Department of Commerce on this particular issue?

Mr. JONES. We have come to an agreement in general and some specific detail, Senator Engle, as to what we need to do next to see whether we can accomplish the purposes which the Senator sets forth in title III of his bill.

As I indicated, these are primarily concerned with a series of administrative arrangements, the first pertaining to personnel, the second pertaining to budget, and the third pertaining to administration of both personnel and budget. This task group, with a deadline of October 1, is to come back to the two Secretaries with a fullblown set of recommendations as to the next steps to be taken to create in effect, a good commercial specialization with the Foreign Service, with adequate opportunities for career advancement. And with a much clearer concept reduced, if necessary, to the individual job sheets or instructions that you give as to what the duties and responsibilities of the commercial officer will be as he moves on up the ranks from his entrance level to wherever he happens to top out in the Service, whether as an ambassador, as a commerce minister, or whatever the titles are that are chosen.

I think I should say one other thing, sir.

You referred to the present level and the effectiveness of the officers operating at that level. It has been my own observation, from a limited amount of foreign travel, not in connection with my present responsibilities, but my prior responsibilities at the Bureau of Budget and as Chairman of the Civil Service Commission, that American businessmen in most instances, regardless of the level of the commercial officer, if they have an important problem, are not satisfied to talk only with him. They want to start with the ambassador.

I have seen this in Japan, I have seen it in Formosa, I have seen it in Korea. And I have also discovered, as I think Secretary Hodges will testify, that the increasing awareness of ambassadors of the importance of this function will change very rapidly the outlooks which they may have had on the commercial service in the past.

Within recent weeks, for example, our former Ambassador to Japan, now Ambassador to Belgium, Douglas MacArthur, told Secretary Hodges at the present time he was giving considerably better

than 50 percent of his time to working on the commercial aspects of his job. And he has a strong commercial staff under him in the Embassy in Belgium, just as he had a strong commercial staff under him in the Embassy in Tokyo.

What I am getting at is this. As the ambassadors come back, one of the chores they have to perform is to come in and talk to me about problems of Embassy organization, their manning tables, and the kind of problems they have.

From ambassador after ambassador I have had a most heartwarming and I think intelligent understanding of what the President means, what the President wants, and what the President expects them to do in this field of trade promotion and related commercial activities.

Senator ENGLE. Now assuming that State Department and the Department of Commerce get to an agreed solution, do you need legislation?

Mr. JONES. I do not think we do, sir. We may need some very minor amendments of the Foreign Service Act, but these are already under consideration by the Congress in connection with the aid legislation.

For example, we need to tidy up the Foreign Service Act a little bit so that we can do something more about lengthening tours of duty. We need authority for permitting leave off the post, so to speak, to get out of some of the more difficult posts and to take leave somewhere else in the area that is congenial and healthy, rather than to rely entirely on the system of home leave that we now have. But these are minor technical points, Senator Engle, which I am sure will have full and I hope enthusiastic support from the Foreign Relations and Foreign Affairs Committees.

Senator ENGLE. We had a businessman in here not long ago who objected to the fact that these people have to rotate. He preferred to leave a man in an area so his accumulated experience and his contacts with the local business community would add to his effectiveness over the years.

Now, are you required presently under the law to rotate these men in such a way that you could not establish a more or less long-range career service for commercial attachés?

Let's assume you had some fellow out in the Far East, the longer he is there the better he is.

Mr. JONES. I don't think I would quite agree with the Chair that you can leave a man in any foreign environment for too long a period of time without bringing him back to get a pretty real feel for what is happening in America.

Senator ENGLE. We had that in mind when we talked to the witness who testified here for Joy Manufacturing Co. These are private outfits that send their people overseas, and they have them established in particular countries, but from time to time, they bring them back in order that they will be reoriented to what the home office is doing and what is going on here.

Then they send them back again to where they came from, not to new countries. They would not send a man, for instance, who had been out in the Philippines or in Japan, they would not send him to Europe, where he has to reorient himself to a whole new set of conditions and industry and whatnot. He comes back to get himself

reoriented to his own company policies, what they are doing, what is going on in this country, and then they send him back to where he came from.

Mr. JONES. Regional specialization is something which we are very definitely moving toward in the Foreign Service today.

Senator ENGLE. You can send a fellow in to Latin America and it does not make a lot of difference, perhaps, whether he is in Guatemala or for instance eventually gets into Costa Rica, or he goes a little further south, because the problems are pretty much the same. At any rate, he requires a specialized knowledge and experience in the area that becomes more valuable as he goes along, provided of course he is brought back from time to time.

Now, do you have sufficient flexibility in the law to do that at the present time?

Mr. JONES. With some minor amendments and with a firm administrative grip on the policy of not changing these people too frequently we can do this; yes, sir. We can lengthen tours of duty and we are moving in that direction.

Senator ENGLE. One question I would like to ask, how do you expect to clean up and facilitate the matter of getting information back through to the Department of Commerce?

These commercial attachés will work directly under the State Department, but they are working also with the Department of Commerce, directly affected in this area.

Now, the way the situation occurs at present, the information comes back by diplomatic pouch to the State Department, then is sent to the Commerce Department which contacts its field office, and then returns through the same route. Is there any way to short-circuit that procedure, or is it desirable to short-circuit?

Mr. JONES. I am not sure it is entirely desirable to short-circuit it because the communications net, Senator Engle, is not such that it could be effectively duplicated by the Department of Commerce.

We do not have the necessary manpower, the equipment to do that. They would still have to rely upon our channels, but one of the largest, and I use the word advisedly, of the administrative jungles, which it falls to my personal responsibility, as the Deputy Under Secretary for Administration in the Department, to wrestle with, is this problem of overhauling our communications and our reporting requirements.

This is a system which has grown up over the 15 years since the end of World War II, and there is a great deal of dead underbrush here that has got to be cut out.

We are chipping away at it and we are trying to take the obvious things first, the things which have impeded the flow of communications. Overclassification of messages is one very important factor.

Another important factor is just the physical security of our communications for those communications which do have to go in coded form.

Still another thing has been a clutter of administrative reports to which I turned my first attention after I came into the Department. It might be of some interest to the committee to know that we have succeeded in chopping out of the reporting system something over 100 required administrative reports which have freed that much more time for the communications network to handle other things that are more important. Actually there is very little delay on message trans-

mission. It might seem like delay to some people, but a very substantial proportion, I would say upwards of, oh, perhaps 60 percent, of our commercial communications are actually despatched on the day in which they are received in the Department.

I am told it is 90 percent. I guess it is 60 percent of those which have to be coded in one way or the other.

Senator ENGLE. Is there any plan afoot to bring the agricultural attachés into the Department of State or any of these other 12 or 13 who operate separately?

Mr. JONES. There is no immediate plan. The Department, I think, was not happy at the removal of the foreign agricultural attachés from the departmental service some few years ago.

Certainly, I for one, was not happy about it at that time. I was not serving in the Department of State, I was in the Budget Bureau. I opposed this as being contrary to the basic philosophy of our last four or five Presidents—centralizing authority for foreign relations in the Secretary of State.

We cannot say that the independent system does not work. Treasury, for example, has some 14 attachés scattered abroad in perhaps 10 posts. They work very closely with our people, but they are not actually under our administrative control, but neither do they have—they are too small in number really to have a career service of their own.

The military attachés have a different kind of responsibility, but increasingly, they are working on problems which are related to the major job of the ambassador.

The same is true of the Labor people. We are engaged now very actively with the Department of Labor in a cooperative venture with respect to the kinds of labor issues which must be considered on an international basis and the collaboration is proving quite effective.

I can't say that the other system won't work, it is just our conviction, and it is my own conviction, as a long-time Government hand, that the more we can put this under one head, with one clear channel of command and responsibility, with adequate coordination, adequate emphasis on policy determination on a cooperative basis here in Washington, the system will work and work better than it has in the past.

Senator ENGLE. You have not referred, unless you did prior to the time I arrived in the committee, and I apologize for being late, I had to be in Appropriations this morning, but since my appearance here, you have not referred to the other aspects of the bill.

Do you assume that the State Department approves the other aspects of the bill?

Mr. JONES. We do, sir. There are a couple of things on which we do not feel particularly competent to comment.

The provision that is related to the Small Business Administration, we think, falls rather to their province. And I think the Secretary's letter made clear, and I tried to bring out in my testimony, the fact that the Treasury Department, I think, has some objection to the way in which the provisions with respect to the utilization of Public Law 480 funds might be used.

The Treasury, I believe, will present their position on this when they come before the committee. We do not object to it, but the Treasury Department has some questions here.

The whole issue of how best to handle foreign currencies is a thorny one.

Senator ENGLE. With reference to the credit features of this bill, the export credit insurance and so on, you have no objection to that?

Mr. JONES. No, sir.

Senator ENGLE. The Chair desires to recognize Senator Yarborough who has another appointment.

Did you wish to ask a question?

Senator YARBOROUGH. Just one question, Mr. Chairman, before I am required to leave.

Mr. Jones, in the evidence that we heard in our hearings on our foreign trade, there was a great deal of complaint by American businessmen at their inability to get information from our commercial attachés abroad concerning the credit risk of the businessman in the other country.

The countries they gave as specific examples were in South America—Argentina and Brazil. They said they would be sometimes staying in the same hotel as the salesman for a foreign company, selling maybe heavy electrical equipment with salesmen from West Germany, salesmen from England, and probably Belgium, with that kind of equipment, and they would ask for the credit rating of the Brazilian or the Argentine company—that the commercial attaché would make inquiry, send to Washington to get a report back, and sometimes it would be months before a reply was received.

However, the West Germans or the British, those two particularly, would have a report from their commercial attachés within 48 hours. The purchasing agents for these Brazilian or Argentine companies will say, "Well, we like your equipment better, we would like to buy it, but they have the credit terms here, they are ready to extend credit and sell us."

They would wait a few more days, but it would be months later before this report would come on the financial and fiscal responsibility of the foreign firm.

I wanted to ask you, do you have any comments upon our service now, or whether the Government offers such a service?

Mr. JONES. I do have a comment I would like to make on that, Senator, and it seems to be a very basic, in my judgment, neglect of Latin America in the course of the past years, since the end of World War II. We have not perhaps recognized as a matter of national policy the full possibilities for promoting export trade in Latin America and we have not built up our commercial services in Latin America to the extent that they have been built up in some other countries.

This is being corrected as rapidly as personnel and facilities are available to do it.

The question of credit, however, gets into a number of other considerations which are sometimes a little bit difficult to deal with in terms of the American businessman's reactions as opposed to those of foreign businessmen. Foreign business has been willing to take somewhat greater risks than some of our businessmen have been willing to take. In some countries they have had rather more substantial statutory guarantees with respect to their investments abroad than have been available to our people.

Senator YARBOROUGH. I believe that is particularly true of West Germany, with this bank for export trade, something like that, where they guarantee the credits and buy the notes of the businessmen in a foreign country.

Mr. JONES. Yes, that and similar things. We have relied on the good old doctrine of the initiative of the American businessman to protect his own interests, pretty much.

Senator YARBOROUGH. Thank you, Mr. Chairman, for yielding to me for just a question. I think that is a subject worthy of exploration.

Mr. JONES. One thing I might add, Senator Yarborough, you may also be referring to some of the requirements that exist under our Export-Import Bank program with respect to the financial responsibility of people.

Senator YARBOROUGH. Yes, and there were very strenuous complaints of the slowness of our Export-Import Bank, slow services.

Mr. JONES. We accept in full the fact that this has been slow.

Senator YARBOROUGH. Are there steps being made to speed up services in that regard?

Mr. JONES. I can't give you a categorical answer, Senator Yarborough, except to say I think the climate and understandings are rather better than they have been in the past.

Senator YARBOROUGH. I know these businessmen complained of the slowness. They said the speed of the competing nations, particularly the European nations, in the different categories of goods we got into—electric refrigeration, typewriters, and things—made them very sharp competitors. West Germany, England, France, Italy, Sweden and Belgium—I remember those countries being named, and that they had fast reporting services on credit; they had faster action through the Export-Import Bank. The Export-Import Bank was not only slower, but was horribly slow even if they had no competition.

Mr. JONES. Also, as I indicated earlier, as a matter of national policy, these countries recognized trade opportunities rather more rapidly and did something more about them than we did.

Senator YARBOROUGH. Thank you very much. I regret I have to leave.

I want to say I certainly appreciated and enjoyed hearing your comments on a number of things that you are doing to expedite procedures on a broad range in the State Department.

Thank you.

Mr. JONES. Mr. Chairman, may I leave for the record—I don't think that I need to read it—a list of the measures which have been taken to improve commercial activities in the Foreign Service? I don't think I need to take the Chair's time or the committee's time to read this, but we would like to incorporate it, if we may.

Senator ENGLE. Yes, it will be made a part of the record at this point.

(The document follows:)

MEASURES TAKEN TO IMPROVE COMMERCIAL ACTIVITIES IN THE FOREIGN SERVICE

Pursuant to the export expansion program launched March 17, 1960, the Department has taken a number of steps to improve trade promotion activities within the Foreign Service:

COMMERCIAL FUNCTION UPGRADED

1. High priority for commercial work is now required of our missions abroad, with increased emphasis and more resources directed to this effort. Posts were so instructed by personal letter from the Under Secretary to all chiefs of mission. This was followed up later by high-level instructions.

2. Export program studies and recommendations have been transmitted to all posts for guidance on the new look being given trade promotion activity; followup instructions are sent periodically; ambassadors and commercial officers are briefed before departing for posts.

3. A special office at the Deputy Assistant Secretary level has been created within the Department to implement the export program and to coordinate the work of the Foreign Service, the Department, and the Department of Commerce.

4. Increased recognition and prestige is being accorded commercial work by directing attention of chiefs of mission to this activity, upgrading a number of commercial officer and local commercial specialist positions, granting appropriate titles where such action increases effectiveness, improving support and attention to needs, and by giving publicity to the export program.

SPECIALIZED PERSONNEL DEVELOPED

1. New training programs have been inaugurated as follows: Two new courses have been established to improve technical competence of mid-career officers and specialists appointed from business and Commerce Department; an orientation program for new FSO-S's introduced to commercial work has been revitalized; new evening courses in commerce and marketing are being offered under the extension program of the Foreign Service Institute.

2. A recruitment program to acquire businessmen and commercial specialists from Government for Foreign Service Reserve appointments was initiated. A backlog now exists which can be drawn upon as positions open. At present there are 37 FSR businessmen and Commerce officials serving at Foreign Service posts.

3. Specialization is being fostered. A roster of officers experienced in commercial work has been drawn up by career development showing some 300 officers with experience presently in the Foreign Service. This roster is used to assist in assignments to commercial positions.

4. Placement. Greater care is being exercised in filling commercial positions. Commerce concurrence is obtained on all commercial positions.

INCREASED COMMERCIAL STAFFS

1. In spite of receiving only 12 percent of the appropriations requested for export promotion in fiscal year 1961, by using regular funds State has—

(a) Increased the number of commercial officers by 19 positions, raising the present total of designated positions to 131.

(b) Increased the number of local commercial assistants by 33 positions.

2. A request for 41 additional commercial officer positions and 48 local commercial specialists has been submitted in the fiscal year 1962 budget.

3. It should be remembered that some 350 economic officers in the Foreign Service contribute significantly to commercial activities.

POST COMMERCIAL ACTIVITIES

1. New vigor in trade promotion activities has been instilled in the Foreign Service. By increasing emphasis on export promotion, by shifting personnel to commercial work, and by rearranging work schedules, posts were able to increase export opportunities reported to American business in 1960 by 75 percent over 1959, with virtually no increase in resources.

2. Posts have been instructed to follow up trade opportunities in order to make this service more effective.

3. The first of several trade centers embodying a new concept in governmental trade promotion services opened in London in June 1961.

4. Two pilot projects were set up at Dusseldorf and Kuala Lumpur to demonstrate what concentrated commercial effort at a Foreign Service post can do.

5. Joint export promotion efforts with American businessmen and American chambers of commerce abroad have been initiated by many posts.

6. Several embassy commercial sections have moved to downtown business districts, and reference material has been improved to the extent possible with existing funds.

7. A worldwide survey of commercial library facilities has been carried out in order to determine needs of individual posts in raising trade reference facilities to a high standard. A request for funds for this purpose is pending before Congress.

8. Commercial newsletters have been inaugurated by several posts where other media for publication of trade opportunities does not exist.

9. Some trade conferences to stimulate commercial officers' efforts in the field have been conducted; more are planned, with attendance by officials from Washington responsible for export promotion efforts.

10. Closer relationships with American business community are being fostered through increasing consultations with businessmen by officers on home leave in trade conference work.

11. More attention and support is being given to trade missions sent to foreign countries by commerce; the number of missions is expected to double in fiscal year 1962, requiring a great amount of followup work.

12. Foreign Service officers have set up and manned trade information booths in about 30 international trade fairs where Commerce participation was not possible, but where commercial promotion was imperative; increased support is also being given at international trade fairs where United States participates with major exhibits.

13. Utilization of professional market research organizations to conduct market surveys requested by American business is under study; this would permit commercial staffs to spend more time on direct trade promotion.

14. In response to a worldwide instruction, posts have provided American business with leading product market potentials of every country in the world.

PROCEDURAL AND REPORTING IMPROVEMENTS

1. Posts have been instructed to place greater emphasis on commercial reporting of use to the American business community.

2. The symbol "export" has been adopted to identify and expedite handling of all communications relating to the export program.

3. Special procedures authorized and implemented, such as telegraphic reporting of tenders to bid, direct response to inquiries from the American businessmen where such procedure is not contrary to best interests of the Department of Commerce services available to businessmen.

4. Advance copies of important telegrams and dispatches are supplied Commerce liaison office.

5. Certain repetitive reporting requirements have been reduced and reporting of opportunities to import United States deemphasized, in accordance with recommendations of the export expansion program.

Mr. JONES. I have no other points to make, Senator Engle, but I will be glad to try to the best of my ability to answer any specific questions the Chair might have or one of my associates, Mr. Palmer or Mr. Heikenen, will answer.

Senator ENGLE. We have asked them as we have gone along. I think I have covered most of the things I desired to ask.

We express our appreciation for your being here and your excellent testimony.

Now, do you expect to get to an agreed position with the Department of Commerce so it will be submitted in writing?

Mr. JONES. Yes, sir.

Senator ENGLE. When will that be?

Mr. JONES. The task force is to report back on the total of its job on October 1 or thereabout—plus or minus a few days—but we are following it at the policy level of the Department; we are holding the feet of the men who are working very much to the fire. We are not going to permit very much slippage. We can't permit slippage because we have too many things underway already that are going

to have to be reflected in this year's program as soon as we know what our final level of appropriations is going to be.

Senator ENGLE. Of course we want to move this legislation before the end of this session.

Mr. JONES. I understand. The movement of this legislation will help very much in that effort.

Senator ENGLE. So your complete plan will not be available by the time we get this bill out and get it on the floor.

Mr. JONES. The complete plan will not be available, no; but I think that the efforts that we have given the agreements that we already have, with respect to training, with respect to recruitment, and with respect to upgrading of positions, and with respect to recognition of the importance of trade promotions as a basic part of the job of commerce officer within the Foreign Service, all of these things are moving forward with full agreement across the board. I honestly think that the results are going to start to become apparent in a relatively short time.

Senator ENGLE. Do you know whether or not the President has the power at the present time under the Reorganization Act, and the authority that he has under that act, to transfer these commercial attachés?

Mr. JONES. This could be done by Presidential reorganization plan under existing legislation; yes, sir; just as the service moved out of Commerce under the old 1939 Reorganization Act.

Senator ENGLE. In other words, what this bill undertakes to legislate, could actually be done by administrative action if the President saw fit to do it?

Mr. JONES. In very large part, I think that is correct. Now, I am not quite sure whether all of the necessary bits and pieces of the Foreign Service Act could be picked up and made applicable to such a transferred corps, if the President did it, but that would be again in the nature technical legislation that I think would have very little difficulty in getting through the Congress whenever it was found necessary to do it.

I think he could do the major job if he should decide it was the thing to do. And I may say to the Chair, that if we and Commerce don't product the goods, not only will we have a responsibility to him to say we haven't, but I think we have a responsibility to the Congress to this committee and other committees who are interested, to come forward and tell you why we have failed. We don't think we are going to fail.

Senator ENGLE. Thank you very much for your statement, Mr. Jones. Your broad experience in this field has been very helpful to us.

The committee will stand adjourned until Thursday, at 10 o'clock, at which time there will be representatives of the Small Business Administration present.

(Thereupon, at 12:05 p.m., the committee was adjourned, to reconvene at 10 a.m., Thursday, July 13, 1961.)

FOREIGN COMMERCE

THURSDAY, JULY 13, 1961

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to adjournment, at 10:30 a.m., in room 5110, New Senate Office Building, Hon. Clair Engle presiding.

Senator ENGLE. The committee will be in order for further consideration of S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes.

While the entire bill is designed to increase and facilitate American exports, title II provides for an expansion of services by the Small Business Administration in order to encourage our Nation's small businesses to enter the overseas markets.

There are relatively few U.S. business concerns presently engaged in foreign commerce, approximately 5 percent. The number of small businesses so engaged is extremely limited. Yet, many additional small businesses could find a ready market for their products and services in other countries.

Through title II of S. 1729, we hope to provide increased participation by these firms in international trade. We believe that this would not only improve the national economy and increase domestic employment, but would also inure to the benefit of the recipients of our trade arrangements, and demonstrate to them the role of the smaller industries in our society.

The task of educating and possibly prodding small business to venture outside of the domestic market would properly be placed upon the Small Business Administration.

Our witness today is John E. Horne, Administrator of the Small Business Administration. Mr. Horne, we are delighted to see you here. We have known you for a long time. We have great confidence in your administration of the Small Business Administration and we welcome your statement.

STATEMENT OF JOHN E. HORNE, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY DR. WILFORD L. WHITE, DIRECTOR, OFFICE OF MANAGEMENT AND RESEARCH ASSISTANCE, AND JEROME S. PLAPINGER, DEPUTY GENERAL COUNSEL

Mr. HORNE. Thank you very much, Mr. Chairman. I appreciate being here and I appreciate your comments just made. I am grateful to you, sir.

I am glad to be able to present to this committee my views on S. 1729, a bill whose principal purpose is to provide a coordinated and augmented program of Government action to improve and expand the services necessary to assist U.S. manufacturers and businessmen in developing export markets. This is a welcome opportunity to discuss with you the importance of establishing such a program and the contribution which the Small Business Administration can and should make to it.

On February 6, 1961, President Kennedy sent a special message to Congress stating that the gold outflow of the past 3 years is due mainly to a deficit in our balance of payments. One of the principal measures proposed by the President to correct this imbalance, and to halt the outflow of gold, is an all-out effort by the Government to encourage and assist the businessmen of the Nation to develop and expand markets abroad. This drive to increase export earnings is essential to the furtherance of our foreign policy.

The foreign trade campaign recommended by the President contemplates the participation of every American business concern, small as well as large, which has prospects in the export field. There is reason to believe that many small firms would, given encouragement and help from the Government, venture into overseas markets and prosper there. Taken in the aggregate, the contribution of these firms to our foreign policy would probably be very substantial. It is important, therefore, that suitable methods be devised to enlist and utilize this small business potential.

The task of awakening American businessmen to the opportunities available overseas is truly a challenging one. A management aid—"Exporting for Profit"—prepared for the Small Business Administration and issued last January contains a finding that relatively few American firms have ever made a special effort to export. Out of the huge total of our annual production, only 6 percent goes into foreign trade. Of the 300,000 or more manufacturers in the United States, it has been stated that less than 12,000 have made identifiable efforts to tap the foreign markets.

Ten years or so ago overseas opportunities were very limited. In the economic exhaustion which followed World War II, the imports of most foreign nations were confined largely to capital goods essential to their recovery. At the same time there was a seemingly insatiable demand here at home for products of all kinds. The resulting preoccupation with domestic markets is still with us. Meanwhile, of course, the Western World has gotten back on its feet. The current prosperity of Europe, on this side of the Iron Curtain, is reflected in an increasing demand for consumer goods of all kinds. Indeed, the demand for many products is rising at a faster rate abroad than in the United States. For this reason it is entirely possible that a very sizable number of small business concerns, now hard pressed in the domestic market by their larger competitors, might find the going a lot easier in the export trade. Moreover, those who have the nerve to take the plunge may not only gain new markets abroad for their products but, with the resulting profits, strengthen their position at home.

The SBA management aid, to which I referred earlier, provides some interesting illustrations of the rewards awaiting small concerns which exploit their overseas opportunities:

1. An appliance company in Pittsburgh, with 12 employees, manufactures air- and smoke-sampling instruments and microbellows pumps for laboratories. Two years ago the president became interested in the foreign market. Today they are shipping instruments and pumps to 10 oversea countries.

2. A lubrication company in St. Louis, with eight employees and a capital of \$125,000, has built up a lucrative business exporting automotive tuneup oil and carburetor cleaner throughout Europe, south Africa, Venezuela, Canada, Central America, and the West Indies. After 8 years their oversea shipments now represent more than half of all their business.

3. A company in Portland, Oreg., making front-end loaders, became interested in foreign sales 3 years ago. Their export business has average a 30-percent increase each year to Japan, Korea, Formosa, the Philippines, Malaya, India, Ethiopia, south Africa, and Europe. It promises to exceed their domestic sales in the near future.

4. A one-man firm in North Carolina makes a semiautomatic collating machine for gluing carbon pads for small print shops. Two years ago, after 5 years of successful domestic operation, he branched out into exporting. Now he ships regularly to 20 foreign countries.

It has become increasingly evident to me since I assumed office as Administrator of SBA that a special program should be developed, tailored to the particular needs of small business concerns engaged in, or seeking entrance to, foreign trade. An intensive and widespread campaign should be conducted to alert small business concerns to their oversea opportunities, to encourage them to explore such opportunities, and to instruct them in the methods to be followed in setting up a successful export business. With these considerations in mind, I have established within SBA an Office of Foreign Trade to perform the following specific duties. It may be of interest to the committee to know that the two ranking members of the Senate Small Business Committee, Senators Sparkman and Saltonstall, urged such action following my testimony before that committee on June 21:

1. Sponsor, in cooperation with universities, chambers of commerce, and other local trade groups, a series of conferences in cities throughout the country to attract the attention of small business concerns to the opportunities offered by participation of foreign trade and to the various forms of Government assistance available for the purposes.

2. Sponsor, in cooperation with selected colleges and universities, short courses to instruct small businessmen in the techniques of exporting.

3. Provide small exporters with individual counseling service.

4. Prepare and publish a list of all businesses engaged in various aspects of export trade, such as freight forwarders, marine insurers, banks with international departments, etc.

5. Compile a list of small manufacturers interested in developing export markets, so that trade opportunities can be referred to them.

6. Prepare and publish management aids covering aspects of foreign trade which are of special significance to small exporters.

7. Extend research into those aspects of foreign trade which are of particular interest to small business.

8. Encourage small businesses to exhibit their products at trade fairs and trade centers at home and abroad. Encourage small busi-

nessmen to participate in and take advantage of trade missions abroad.

9. Establish and maintain such liaison with the Department of State, the Department of Commerce, the Export-Import Bank, and other agencies of the Government as will further the functions of the Office.

I would like to emphasize that these programs would be effected in cooperation and coordination with the Department of Commerce and other appropriate agencies of Government to avoid duplication of activity.

I would like to discuss briefly the kind of individual counseling service which, under the plan I have in mind, would be provided by SBA to small business concerns. There are voluminous publications, issued by the Government as well as private organizations, containing information of great value to exporters. But few small businessmen are sufficiently versed in the techniques of foreign trade, and the terminology employed therein, to make a proper analysis of their problems without individual guidance.

Another factor to be considered is that, with rare exceptions, export trade will provide only a partial outlet for small business concerns. In the great majority of cases those engaged in foreign trade will, at the same time, be selling in the markets here at home. We can hardly furnish the proprietor of such a firm with the advice and assistance contemplated by the Small Business Act if we limit our guidance to problems arising from his domestic sales and tell him that, with respect to the remainder of his operations, he will have to go elsewhere. The inseverable relationship between the two aspects of his business must be recognized. An intelligent decision could not be made regarding one without considering its possible effects on the others. For example, in providing such concerns with financial advice and assistance, pursuant to the Small Business Act, SBA must take into consideration the needs of all segments of the applicant's business.

It is clear that such advice and assistance should, where possible, be furnished on an integrated one-step basis. SBA, because of experience already gained in furnishing these various services, is the logical place to administer programs involving such advice and assistance.

Therefore, I regard it as essential, if maximum help is to be given small business, that we have advisers able to discuss export plans and problems with the proprietor of any small concern; to advise him respecting the feasibility of such plans and to help him surmount such problems; to explore with him the possibilities of obtaining adequate financing for his enterprise; to determine what factual data needs to be ascertained respecting foreign countries—such as tariff and trade restrictions, licensing and exchange controls, shipping and packaging requirements, taxes, etc.; to obtain such data from the appropriate agencies of the Government; to refer the businessman to such agency.

The services of these advisers are intended to supplement, rather than duplicate, functions presently performed by other agencies of the Government.

Closely related to this program is a contract entered into on June 30, 1961, between SBA and the International Marketing Institute at the Harvard Graduate School of Business Administration. Under the terms of the agreement the institute will conduct research to

isolate and identify problems faced by small business concerns engaged in, or seeking entrance to, foreign trade. I am sure that the findings of the institute, which are due on or before June 1, 1962, will be of great value to our export assistance program. Of course, this study will be made available to other agencies of Government having responsibilities in the field of foreign trade. In addition, we have five other research projects underway concerning various aspects of foreign trade as they affect small business.

No legislation is required for the Office of Foreign Trade which I have established within SBA. The Small Business Act contains abundant authority for such a step. However, 19 Senators are sponsoring a bill, S. 1379, which would reemphasize the importance of SBA's becoming more vigorous in its efforts to assist small business concerns in the field of export trade and, moreover, would provide a Deputy Administrator as its head. S. 1379 would also have the SBA Administrator participate in helping establish overall Government policy relating to export trade.

For the committee's information the sponsors of S. 1379 are Senators Sparkman, Javits, Long of Louisiana, Humphrey, Smathers, Morse, Bible, Randolph, Engle, Bartlett, Williams of New Jersey, Moss, Saltonstall, Schoeppel, Cooper, Scott, Prouty, Case of New Jersey, and Keating.

Section 7 of S. 1379 generally provides for the type of program I have described, although it does go beyond existing law in certain respects, and in terms of interagency relationships and program development may require further consideration.

The bill, S. 1729, under consideration by this committee contains provisions which are in direct conflict with the program I have described. If title II of S. 1729 were enacted, I would be powerless, as I interpret it, to proceed with my plan to furnish adequate assistance to small exporters. Control of this matter would, for all practical purposes, be transferred from SBA to the Department of Commerce.

Under the plan of title II of S. 1729 the Secretary of Commerce could, if he wished, invite the Administrator of SBA to assign SBA personnel to the field offices of his Department for duties directly relating to expanding the opportunities and facilities for the participation of small business in foreign commerce. In such case, the Administrator could assign the personnel—but he would lose all control over them. The Secretary of Commerce, rather than the Administrator, would prescribe their function and supervise their operations. The Administrator would be a bystander.

Title II recognizes that it may prove desirable to expand the number and variety of export services furnished to small businessmen by the regional and branch offices of SBA. Here again, however, the Secretary of Commerce would make the decisions. Unless and until requested by the Secretary, the Administrator could take no action.

These restrictions would, insofar as foreign commerce is concerned, deprive SBA of the independence which it must have for the proper discharge of its important responsibilities as protector of the interests of small business. Consequently, I am strongly opposed to the enactment of title II. The committee may want to consider postponing action on title II of S. 1729 pending arrangements being worked out between SBA and the Department of Commerce in the export field as to division of responsibilities to avoid duplication of functions.

I have no objection to other provisions of S. 1729 but would leave the judgment to the agencies most directly concerned.

In conclusion I wish to repeat, for purposes of emphasis, four of the points I have made. First, the export assistance program which I plan to undertake is necessary for the furtherance of the Nation's foreign policy and for the welfare of small business. Second, under the provisions of the Small Business Act, SBA is now fully authorized to conduct this program. That is the program I have suggested. Third, the services provided by SBA under the program are intended to supplement rather than duplicate the existing functions of other agencies of the Government. Fourth, title II of S. 1729 would prevent SBA from conducting the program and, insofar as foreign commerce is concerned, confine the agency to a role which is entirely incompatible with its status as an independent agency.

I thank you again, Mr. Chairman, for the courtesy of being before this committee.

Senator ENGLE. Mr. Horne, I take it from your testimony that you believe that the terms of S. 1729 are actually restrictive on the present freedom of motion which your Agency would have in the absence of such provisions, is that right?

Mr. HORNE. That is my interpretation of title II of S. 1729, Mr. Chairman.

Senator ENGLE. In other words, you think, under existing law you actually have more authority than title II of S. 1729 would give you?

Mr. HORNE. Yes, sir.

Senator ENGLE. As a matter of fact, provisions of this bill would inhibit and prevent you from going forward with those items which you specify in detail on page 3 of your statement?

Mr. HORNE. Yes, sir, that is my understanding of it, except as the Department of Commerce may ask me to do so and may agree that I should do so.

Senator ENGLE. I think our objectives are the same.

Mr. HORNE. I am sure of that.

Senator ENGLE. The question is one of mechanics.

Mr. HORNE. Yes, sir.

Senator ENGLE. I know you observed that I am a coauthor of S. 1379.

Mr. HORNE. Yes, sir.

Senator ENGLE. We had this problem with the State Department the other day. We have title III in this bill which provides for commercial attachés to be established as a separate corps in the Department of Commerce. The State Department came in and fussed about that, saying that they wanted to set up their own professional corps of commercial attachés, and stated that taking these commercial attachés out of the State Department and putting them into the Department of Commerce would diffuse the line of administrative action rather than simplify and straight-line it.

The same problem exists with reference to the Small Business Administration; that is, the question is whether or not the whole program is going to be coordinated under one agency or not. The State Department takes the position, and apparently the administration does

too, although I'm not too sure about that, that it is better to center all this action in one area. That is the basis on which the State Department complains about setting up a separate and professional commercial attaché corps.

The provisions of S. 1379 would give the Small Business Administration a great deal more autonomy in this particular field, but, as I understand the provisions of that bill, you would nevertheless coordinate with the Department of Commerce?

Mr. HORNE. Yes, sir.

Senator ENGLE. May I ask whether or not, to your knowledge, this matter has been cleared as between the departments? I don't know who would make that decision? Would it be the Bureau of the Budget?

Mr. HORNE. That would be my understanding, Mr. Chairman, and so far as I know, to answer your question, no definite line of demarcation or working arrangements have been settled as among the agencies of the Government. Certainly that would be true of the Small Business Administration. We have been in touch with the Department of Commerce. We have had a meeting with the Department of Commerce on this matter, but no definite arrangements have as yet been worked out. That is one reason, Mr. Chairman, that on page 10, 9 or 10 of my testimony, I suggest that the committee may want to consider postponing action on title II of S. 1729, pending arrangements being worked out between SBA and Department of Commerce in the export field as to division of responsibilities to avoid duplication of functions.

Senator ENGLE. I prefer to get it straightened out and leave it in. I don't care how they do it. If the provisions of this particular bill actually constitute a limitation on the present authority of the Small Business Administration under present law, I would change them so that such limitations would not exist. I would certainly do that; in other words, I'm not in favor of backing up. I'm going forward, and if we can put something in this bill that lays the basis for the necessary coordination, I would be in favor of that without inhibiting the present authority that the Administrator of the Small Business Administration has, only requiring that he coordinate the other agencies.

Beyond that, the next step you might consider, and that is picking up the provisions of S. 1379 and simply making them title II of this bill. Now you could do that, but I don't want to get down to the White House with this proposition and have them veto the bill on the ground that we are going in one direction with the State Department and another direction, policywise, with the Small Business Administration. That is, they say, on the one hand, we want to centralize the control of this foreign trade program in the Department of State and for that reason, they would not set up a separate commercial attaché corps, and then turn around and say, but with reference to Small Business, we will have them running their own ship as an independent group, but only coordinating."

It seems to me that we can't have it both ways unless there is some awful good reason for having it both ways.

Mr. HORNE. I see your situation, Mr. Chairman, and your dilemma, and, of course, somewhere along the line it is going to be necessary, if I may volunteer a statement, it is going to be necessary for the concerned agencies to get together and work out some of these things. They will have to work out and develop a coordinated arrangement among themselves.

I'm sure of course, you know that the statement I have made to the committee has been cleared by the Bureau of the Budget.

Senator ENGLE. Of course, my view about the Bureau of the Budget is that they get their hands in too much. I recognize their authority to deal with budgetary problems, but it seems to me that where you get agencies of the Government arguing with each other as to what their respective independence and freedom of operation will be, that somebody at the top has to knock heads together and come up with a coordinated proposal. My impression was that the State Department got the best of the argument on an independent and professional corps of commercial attachés, not before this committee, but down there in the White House. I told Commerce that I thought the State Department was going through the front door while they were coming through the back door, and the front door is always best, if you can get in it. I don't know which door you have access to. [Laughter.]

Mr. HORNE. I guess I better not comment.

Senator ENGLE. But could I suggest this, that you arrange to sit down with Secretary Hodges—when is he coming up here?

Mr. LEVIN. A week from Friday.

Senator ENGLE. Because as far as the mechanics of this legislation are concerned, I want the best possible mechanics we can get. I'm inclined to disagree with the State Department with respect to a commercial attachés corps because, as I told them the other day when Roger Jones was here, I just don't believe that commercial attachés will ever regard that service as in the main line of the diplomatic service, and, as a consequence, it doesn't have the career attraction that you need.

The same argument doesn't apply with reference to the Small Business Administration, and I would suspect that you could do a little better job if you were off on your own, provided, of course, your efforts weren't in conflict with those going forward under the Department of Commerce.

May I request that you try to sit down with Secretary Hodges and his people and see if you can get to an agreed position on this matter?

Mr. HORNE. Yes, sir.

Senator ENGLE. If you can't do it, take it over to the White House and see if you can get a clear line of policy established because, as far as I am concerned, I would prefer not to take it out of this bill and postpone it. They are talking about taking out the commercial attaché corps, and when I get through I would have a skeleton left without any meat or bones on it except the one provision of great importance, which is the provision, of course, with reference to credit insurance. That is a matter of tremendous importance and probably the key provision of this legislation because it enables our people to compete on a more equal basis with their foreign competitors.

These other two items are mechanical in nature. Everybody agrees on the importance of a professional commercial corps. Everybody agrees on the importance of making it possible for small business to get into this export field. We all recognize that they have limitations in getting into the export field that do not apply to large business. Large business has experience in the area. Large businesses very often have their own people overseas. The little businessman simply doesn't have access to those kind of facilities, and hasn't the experience or the know-how to operate. That is why it is so important that we make it possible for them to participate actively and substantially in this field. The question is how you help him most.

Mr. HORNE. That is right.

Senator ENGLE. That is what we want to do, but it would be a great service to this committee if you could sit down with Secretary Hodges, who is a very reasonable man, and if you and he get together on what you think would work best in the interests of small business. In putting this bill together, we will simply go to work and change the bill and put it in such form that it will work the way that you people, who have the responsibility of going forward, think that you can do the best job. It would be a great service to this committee if when Secretary Hodges comes up here next Friday, that we could have a clear line of policy established as to how this matter is to be handled.

Senator Bartlett.

Senator BARTLETT. Mr. Horne, do you think that the committee might properly infer that if we heard any loud noises, apparently emanating from downtown, you are in the locked room conferring with Secretary Hodges?

Mr. HORNE. Let me make sure that I understand—

Senator BARTLETT. It is just as well that you don't.

Now, Mr. Horne, is it your information that if the provisions of S. 1729 were adopted, with respect to title II, that the small businessmen of the country in their need to and desire to enter the export market more aggressively, wouldn't have the undivided attention which SBA was created to give them?

Mr. HORNE. Senator, I am of the opinion that a small businessman endeavoring to get into the field of export trade has related to this problem other problems. He needs an integrated kind of advice and counsel. I think that the Small Business Administration is more qualified and more equipped to give this integrated advice. His problem related to exports may very well have connected with it the problem of financing. The problem as to how much emphasis he wants to make, of course, the final decision will be his, but it would be helpful to discuss with him how much emphasis he wants to give to this export, what percentage he wants to try to get in export channels, what should continue to be his operations so far as domestic markets are concerned.

Senator BARTLETT. And you are apprehensive that one line of assistance would be diluted if these provisions were adopted?

Mr. HORNE. Yes, sir.

Senator BARTLETT. You would put SBA people in the Commerce Department abroad only at the request of the Secretary of Commerce, in accordance with S. 1729?

Mr. HORNE. Yes, sir. If S. 1729 is adopted in its present form, I could put the men in their office at his request and their activities would not be controlled by me after I put them there, if I understand title II correctly.

Senator BARTLETT. Who would pay for them?

Mr. HORNE. We would pay for them.

Senator BARTLETT. Mr. Horne, how many people, approximately, do you have engaged now in this export market field?

Mr. HORNE. To answer your question very honestly, Senator Bartlett, I cannot say at the present time that we have anybody working in this area on a full-time basis. It is an area in which there is a need but we simply have not had the personnel with which to do this job.

Senator BARTLETT. Have you asked for any money to accomplish this job from the Budget Bureau?

Mr. HORNE. I did not ask for any money for this specific purpose for the present fiscal year. For your information, we are projecting into the future at the Budget Bureau's request, and I don't guess I would be out of order to say that the possibility of asking for help for this specific need in the future is under very careful study right now by me and my staff.

Senator BARTLETT. You have had conversations with the Budget people though?

Mr. HORNE. Yes, sir.

Senator BARTLETT. What has been their general attitude, would you say?

Mr. HORNE. In regard to what, sir?

Senator BARTLETT. In regard to your expanding or your activities in the export field.

Mr. HORNE. They have reached no conclusion on it as yet, sir. There have been no commitments one way or the other.

Senator BARTLETT. You feel that if the comparable provisions of S. 1379 were lifted and placed in S. 1729, that the purposes you desire to achieve could be accomplished?

Mr. HORNE. I suppose in answer to that, Senator Bartlett, since I have not discussed this with the Bureau of the Budget, I could say that if the committee decided to proceed either with section 7 of S. 1379 or title II of S. 1729, that I would prefer section 7 of S. 1379.

Senator BARTLETT. How many field offices does SBA now have?

Mr. HORNE. We have 15 regional offices and 46 branch offices.

Senator BARTLETT. Would you judge that there are any personnel in those offices especially skilled in this export market?

Mr. HORNE. Unquestionably there are some people in these offices that would have knowledge of the export market. In this regard, I have sent out a request to the regional directors, advising or asking that they take inventory of any such personnel and to advise me forthwith of their findings. I should be getting replies to this request by the end of this week.

Senator BARTLETT. And you informed the committee that if title II is incorporated in S. 1729, it will represent a diminution of the autonomy of SBA?

Mr. HORNE. In this field?

Senator BARTLETT. In this field.

Mr. HORNE. That is my belief, sir.

Senator BARTLETT. And as I understood your testimony, you believe that the small businessmen of the United States in seeking larger export markets can be best helped by the SBA?

Mr. HORNE. Up to a certain point. There is a time or there will be a time, and this is something I want to delineate in my own mind and scrutinize more than I can tell you at the present time, but there will be a time when we will want to send him to the Department of Commerce or to the Export-Import Bank or if Congress should decide—I don't know whether legislation has been introduced but I have seen reference made to it that a private financing arrangement would be set up perhaps to help businesses in their export field, that that should be done or if there are any other sources where you could get financial assistance or any other kind of assistance, we would refer him to the appropriate agency or appropriate source.

Senator BARTLETT. You see no wide areas of possible disagreement in the operations of a program of this kind between your agency and Commerce, for example? It is only that you don't want your authority to help the small businessman reduced or curtailed?

Mr. HORNE. That is right.

Senator BARTLETT. On the other hand, you want to expand it so that his total operation, domestic and foreign, may be aided?

Mr. HORNE. That is correct, sir.

Senator BARTLETT. I have no further questions.

Senator ENGLE. Before going any further, the staff has prepared a short memorandum of a comparison between S. 1379 and S. 1729, concerning the provisions of small business, which I assume is fairly correct and I will ask to put this in the record at this point in order that the record may indicate the technical difficulties or differences between the two proposals.

(The document follows:)

STAFF MEMORANDUM—COMPARISON OF S. 1729 AND S. 1379

PROVISIONS CONCERNING SMALL BUSINESS ADMINISTRATION

S. 1729

S. 1379

Title II, Expansion of Services by Small Business Administration.

SECTION 201(a). Establishes in SBA an Office of Liaison with the Department of Commerce, headed by liaison officer with rank and salary of a Deputy Administrator of the SBA. Liaison officer will:

(1) Assign personnel to Department of Commerce field offices in the United States for duties concerning foreign trade;

(2) When requested by Secretary of Commerce, undertake program to expand export services of SBA in regional and branch offices;

(3) Provide for advertising helpful to expand foreign trade of small business and utilize services of Department of Commerce and other Government agencies;

(4) At request of Secretary of Commerce, represent interests of small business at international and national conferences;

(5) In close coordination with Department of Commerce, disseminate trade information aiding small business in expanding exports;

(6) Assist and encourage small businesses in forming associations under Webb-Pomerene Act.

Section 201(b). Provides for five Deputy Administrators.

Section 7 uses the same language in heading.

SECTION 7(a). Establishes in SBA a Foreign Trade Division, headed by a Deputy Administrator, who will:

(1) Undertake program to expand export services of SBA in regional and branch offices (similar to 201(a)(2));

(2) Provide for advertising helpful to expand foreign trade and utilize services of other Government agencies (similar to 201(a)(3));

(3) Cooperate with Secretary of State, Secretary of Commerce, President of Export-Import Bank in encouraging small business to enter foreign trade, and, when deemed desirable by Secretary of Commerce and Secretary of State, to assign personnel to trade fairs and trade missions;

(4) (Basically same as 201(a)(4) except that he may do so without request by Secretary of Commerce;

(5) Publish directories of business concerns involved in foreign trade, such publications to be sold to produce revenues equal to at least one-half the total cost of the program; Administrator may contract with private groups to carry out this section;

(6) Generally establish, maintain, and operate a program to promote export expansion by small businesses. Section 7(b). Same as 201(b).

COMMENTS

S. 1729 gives little new authority to SBA, but generally restricts all of its activities in foreign trade expansion to work under the Department of Commerce, while S. 1379 allows for an expansion of services to be taken by SBA in promoting foreign trade.

S. 1729 provides generally for the Department of Commerce to coordinate all foreign trade activities under its direction, while S. 1379 provides for a Council for Export Promotion made up of Under Secretary of Commerce, Under Secretary of State, Under Secretary of Agriculture, President of Export-Import Bank, Director of International Cooperation Administration, Chairman of the Council of Economic Advisers, and Administrator of the Small Business Administration.

The provisions of S. 1379 are broader than those of S. 1729, and, by freeing the SBA from control in this field by the Department of Commerce, could provide greater services to expand foreign trade.

S. 1729 would eliminate, to some extent, duplication between the agencies. It would also provide a more coordinated approach.

Senator ENGLE. Senator Schoeppel, have you had time to review the testimony to ask a question or two?

Senator SCHOEPEL. I am sorry, Mr. Chairman. I want to say to you, Mr. Horne, I regret by reason of a previous conflict in some committee matters that I could not be here at the inception of this hearing. I have hurriedly read what you had to say and I might say first I have read what you had to say about S. 1729 and also the other measure.

I would just like to ask you this. In your activities in relationship with the Commerce Department, have you from time to time in your agency had the benefit of conferences and consultations with the Department of Commerce, trying to work out an approach to this entire foreign trade picture wherein the Small Business Administration here can render service to the small business enterprises in this country?

Mr. HORNE. Senator Schoeppel, first, let me say, sir, that I appreciate why you didn't come in at the beginning of the committee hearings. I'm glad that you did get in before it is over. To answer your question, we have not had as many consultations with the Department of Commerce as I contemplate we will have. We have met at the staff level. Members of my staff have met with members of their staff on either one or two occasions. We contemplate having additional meetings. The purpose of the meetings, of course, is to establish a better coordinated, more closely knit working relationship in this area than presently exists. There is no question in my mind but what there are responsibilities and help that each of us can give with duplication to a minimum and that both of us, the Small Business Administration and the Department of Commerce, have a need to fill in this area of helping businesses export, if they want to get into the business.

The delineation of duties have not as yet been clearly defined.

Senator SCHOEPEL. I couldn't agree with you more. Obviously—I note from the tenor of your remarks here—it is your purpose to avoid as much duplication as possible but it would seem to me that conferences and collaboration together might assist in working this thing out and yet render the needed type of service. Many of the small businesses feel that they have been somewhat in a neglected status because many of the larger business concerns in the country, of course, are in a much better position financially and representative-wise in the various sections of the world to handle a lot of these matters. I'm hopeful that something can be done with the Commerce Department to work it out so that we can get together on the type of legislation here that we really ought to have to eliminate as much duplication and yet render the service that I'm sure there is a field for.

Mr. HORNE. We have in mind, Senator Schoeppel, in the Small Business Administration that if we are able to expand our operations in this area, that most of our efforts will be spent with small businesses who have just meagerly, so to speak, entered the field and still need some help and guidance or who have not entered the field at all but who are seeking information and as to which agency of the Government he may need to go in addition to coming to the Small Business Administration in order to learn about this program and to get into it. And, as I am sure you know, because of your long experience with

the Small Business Administration and your membership on the Senate Small Business Committee, the SBA has other counseling programs already aggressively in effect. We are experienced in doing the kind of thing that I outlined in this statement that we could do and that I would like to do in the field of export counseling, but there is still the time, just as in our other areas of advice and counseling, when the small businessman would need to go to the Department of Commerce to get the help that this agency specifically is so well qualified to give and also to go to the Export-Import Bank and perhaps to go to other agencies of the Government. But, we could give him elementary advice and guidance and have him go to these agencies for services which they specifically give and which we don't give.

Senator SCHOEPPPEL. That is interesting. Let me ask one other thing here. This committee, of course, passed on legislation that broadened the field of activity even in the Commerce Department in the foreign trade field. As you know, there have been a number of international fairs or big trade fairs in a number of foreign countries. Did your Small Business Administration—I know you have only been there a short time—did they have representatives or do you contemplate having representatives in some of those areas in the future at trade fairs held in other sections of the world?

Mr. HORNE. When you speak of representation, Senator, do you mean representation by SBA employees?

Senator SCHOEPPPEL. Yes, sir.

Mr. HORNE. No, sir; we have not had representation and it is my belief that this is one area in which we would want to work out an agreement with the Department of Commerce or a working relationship with the Department of Commerce that would make it possible for us to participate.

It would be my further intent in advising the small business people, once we got to the point that he would be interested and would want to participate in one of these trade meetings, that then we would direct him to the agency or the Department of Commerce, whoever is handling his particular operation, to let them get together and proceed to work out their plans and the remainder of the details.

Senator SCHOEPPPEL. I have heard it said that in the South American area at some of those fairs they had down there, there was any number of cases where, if some of those people had known or had the opportunity to be there, there would have been a fruitful field for the expansion of the products of the smaller businesses of this country going into those areas.

I am quite aware, as I know you are, about some of the credit relationships in some of those areas, our South American area, which haven't been too conducive to extension of credit. Some of those things are being worked out satisfactorily and it would seem to me in this field of these trade fairs, that there is an area of collaboration with the Commerce Department that I think would be very beneficial.

Mr. Chairman, that is all I have.

Senator ENGLE. I observe on page 4 of your statement, you gave nine different items which you referred to as the action you would take. Now which one of those specifically would be cut off by the provisions of title II of S. 1729?

Mr. HORNE. I have not given specific thought to that, Mr. Chairman. I can hurriedly glance at it or if agreeable with you, I would prepare a statement for you, after more careful examination of these proposals with title II of S. 1729 than I have presently given, whichever you prefer, sir.

Senator ENGLE. What I am interested in is your feeling that S. 1729 actually limits the present authority that you have under existing law. Where that occurs, I want to get my hands on it. I assume what you mean is that since the participation of the Small Business Administration in the foreign trade program would be delineated by the provisions of title II, that therefore, that designation or outline of your authority and your action in that area would be limited to that extent by this law, is that right?

Mr. HORNE. Yes, sir. The Secretary of Commerce, as I understand it, would determine pretty much himself what activities he wanted us to do in this area and we would do it only on his invitation and under his guidance or counsel, so to speak.

Senator ENGLE. What you are saying is that under the present Small Business Administration authority, you could proceed to do things now that you would necessarily have to clear with Commerce under the provisions of this law, if it were passed?

Mr. HORNE. Yes, sir.

Senator ENGLE. Do you have authority now to put men in foreign countries to aid and assist in the promotion of export trade for small business?

Mr. HORNE. It would be my understanding that under existing legislation, that if we had the personnel with which to do it, we could carry on an arrangement or the development of an arrangement with appropriate officials of other countries and help them with their small business problems or help them develop small business programs or help them set up displays of business manufacturing, provided, of course, they were willing to do so.

Senator ENGLE. Looking at this list, it would occur to me that most of these things you could do anyway because they are domestic in character. For instance, meeting chambers of commerce and local trade groups; teaching the techniques of exporting; providing the individual counseling services; list of businesses engaged in various aspects of export trade such as freight forwarders, marine insurers, banks with international departments, and so forth; listing of small business manufacturers interested in the development of export markets, which is your number five; prepare and publish management aids covering aspects of foreign trade which are of special significance to small exporters; extend research—it seems to me that these things, without question, could be done and I see nothing in title II that would inhibit those.

It seems to me that where you would get into difficulty would be when you started to push out from the shoreline, and that there you might find that except as delineated by the Secretary of Commerce, under this provision, they might say that the Commerce Department has preempted the field. In other words, that thereby you were precluded from independent action except as controlled by the Department of Commerce. Is that your thinking? Is that how you come to the conclusion that title II actually limits rather than expands your authority?

Mr. HORNE. Yes, sir, and also under title II, page 7, line 23, it has this provision:

when requested by the Secretary of Commerce, to undertake a program for the expansion of the number and variety of export services

and so forth.

Senator ENGLE. Where is this?

Mr. HORNE. At the beginning of line 23 on page 7 of the bill.

Senator ENGLE. Yes, I see that. In other words, you feel that the language of that subsection would in effect prohibit you from proceeding unless so requested, is that right?

Mr. HORNE. Yes, sir. In other words, when requested. Many of these things that I have outlined—I haven't checked these things I have outlined specifically against this language, but I shall gladly do so and send you a separate statement.

Senator ENGLE. It isn't necessary because I am trying to get to the point, and I think the point now is in the record that we want to make and that is that some of this language, by interpretation, could result in the Department of Commerce saying that you had no authority to proceed unless invited to do so.

Mr. HORNE. Yes, sir.

Senator ENGLE. This legislation, therefore, preempts the field as far as authority in that area is concerned, and that in the absence of such a request, you couldn't proceed to do it.

Mr. HORNE. Yes, sir.

Senator ENGLE. Well, I think we can straighten that out without too much difficulty.

Now, that is one thing I would suggest you talk to the Commerce people about. You have indicated a preference for section 7, which would authorize you to set up a foreign trade division and the Administrator, acting through the Deputy Administrator in charge of the foreign trade division, is authorized and directed to do certain specific things. Is there any reason why you can't take that language in section 7, sit down with the Secretary of Commerce or his people, and find out how you are going to coordinate? If you do have this kind of a division, and if this section was picked up right out of this bill and put in as title II or a part of title II of S. 1729, could you coordinate it to get along with Commerce and not have two outfits doing the same job?

Mr. HORNE. I will be glad, Senator, to get in touch with the appropriate people at the Department of Commerce. I should like to add too, Senator, and I would like to give this in the form of an explanation. My comment was that if the committee should proceed with the passage of legislation on this subject and should decide either to go with title II of S. 1729 or section 7 of S. 1479, that I would prefer S. 1379.

Senator ENGLE. I understand that from your statement, but the problem that concerns me is how you are going to coordinate it so that we don't get the Department of Commerce doing the same job that you are doing, and thereby get a lot of duplication. Now, if you can work that out, and our staff people will be glad to get together with you and your staff people and Secretary Hodges and his staff people, we will see if we can come up with an answer.

It seems to me that we have to have a policy decision from down there someplace unless you and Commerce can get to an agreed position. If you can get to an agreed position, there isn't anything for Budget or the White House to decide, except if they do not want what both agree to. I'm not so sure they would do that.

Do you have any questions?

Mr. LEVIN. None.

Senator ENGLE. Thank you very much for appearing and I apologize again for being late and delaying you. It was unintentional, I assure you.

Mr. HORNE. Thank you.

Senator ENGLE. We will check back with you before Mr. Hodges shows up because I'm very interested in wrapping this bill up and getting it underway. It is an important piece of legislation and I would like to at least move it through the Senate before the end of this session so we can get at it. So far as the foreign commerce of the United States is concerned, there is no more important piece of legislation than this, and we anticipate a long and continuous struggle to maintain American exports and the competitive situation of American businessmen overseas. We are just starting. It is going to get worse before it gets better, and this kind of legislation will help us to keep it from getting worse than it would be otherwise.

Thank you very much for your appearance.

Mr. HORNE. Thank you, Mr. Chairman.

Senator ENGLE. The committee will be adjourned until next Friday morning.

(Thereupon, at 11:25 a.m., the committee was adjourned.)

It seems to me that we have to have a policy decision from down there somewhere unless you and Commerce can get to an agreed position. If you can get to an agreed position, there isn't anything for Budget or the White House to decide except if they do not want what both agree to. I am not sure they would do that.

Do you have any questions?

Mr. Lavin: None.

Senator Ficker: Thank you very much for appearing and I apologize again for being late and delaying you. It was unintentional. I assure you.

Mr. Lavin: Thank you.

Senator Lavin: We will check back with you before Mr. Hodges shows up because I'm very interested in wrapping this bill up and getting it underway. It is an important piece of legislation and I would like to at least move it through the Senate before the end of this session so we can get it. So far as the foreign commerce of the United States is concerned, there is no more important piece of legislation than this and we anticipate a long and continuous struggle to maintain American exports and the competitive situation of American businessmen overseas. We are just starting. It is going to get worse before it gets better, and this kind of legislation will help us to keep it from getting worse than it would be otherwise.

Thank you very much for your appearance.

Mr. Lavin: Thank you, Mr. Chairman.

Senator Ficker: The committee will be adjourned until next Wednesday morning.

(Thereupon at 11:25 a.m. the committee was adjourned.)

FOREIGN COMMERCE

FRIDAY, JULY 21, 1961

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to adjournment, at 10 a.m., in room 5110, New Senate Office Building, Hon. Clair Engle presiding.

Senator ENGLE. The committee will be in order for the further consideration of S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes.

We have already heard witnesses from the Department of State and from the Small Business Administration, who have given us their thoughts on the provisions of this bill with respect to their agencies. The governmental department which is most affected by S. 1729 is the Department of Commerce. The bill proposes an overall expansion of the services offered to American businessmen and exporters by the Commerce Department.

One of the more controversial sections of the bill contemplates the creation of a Foreign Commerce Corps within the Department of Commerce, as opposed to the present system of commercial attachés being a part of the Foreign Service Corps of the Department of State.

We have also been advised of certain conflicts between the Small Business Administration and the Department of Commerce as to their respective activities in the field of export promotion. I hope that the Small Business Administration and the Department of Commerce have been able to get together and resolve some of these conflicts during this past week.

Our witness this morning is the Acting Secretary of Commerce, Mr. Gudeman.

Mr. Gudeman, I hope you can tell us of the position of your Department vis-a-vis the statements we have heard from the other agencies.

We are very happy to have you here this morning and to have your statement.

STATEMENT OF HON. EDWARD GUDEMAN, UNDER SECRETARY OF COMMERCE

Mr. GUDEMAN. Thank you.

First I would like to say that Secretary Hodges is very sorry that he could not be here. As you know, he is out of the city.

Senator ENGLE. You have a prepared statement, do you?

Mr. GUDEMAN. I have a prepared statement in the form of a letter to you, sir. If I may, I would like to read it.

Senator ENGLE. Go right ahead.

Mr. GUDEMAN. This is in response to your request of May 8, 1961, for the views of this Department respecting S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes.

The bill states it is to be the sense of the Congress—

that the peace and well-being of the peoples of the world increasingly depends on wider recognition, both in principle and practice, of the interdependence of men upon an expanding exchange of goods and services.

The bill would have the Congress find and declare—

that foreign trade represents a strong and vital element in the economic leadership of the United States among free nations.

S. 1729 would generally authorize a variety of services to assist U.S. manufacturers and businessmen in developing export markets, and would establish within the Department of Commerce a professional career service to promote the foreign commerce of the United States, including a so-called Foreign Commerce Corps. It would also provide specifically for an expansion of services to small business, and the establishment of a program for the insurance of export credits against political and commercial risks.

The Department of Commerce is, of course, vitally interested in any and all necessary and practicable means which will promote the foreign commerce of the United States. President Kennedy stated in his message on the balance of payments, of February 6, 1961:

In seeking overall equilibrium we must place maximum emphasis on expanding our exports.

He declared further that—

the Government must play a more vigorous part in helping to enlarge foreign markets for American goods and services,

and he directed specifically the Department of Commerce to—

provide energetic leadership to American industry in a drive to develop export markets

and that we—

promptly increase our commercial representatives and facilities abroad.

S. 1729 is intended to facilitate these objectives and we are generally in accord with its underlying purposes, subject, however, to the following comments regarding certain of its provisions.

Title I enumerates a variety of export promotion functions, many of which are already being performed by this Department. There are other related functions not specifically covered by this title which this Department is performing in the fields of trade, travel, and investment. I have in mind, for example, our activities to develop and disseminate information about trade and investment opportunities, both here and abroad, and new efforts that are being developed particularly to encourage travel to the United States.

We approve, therefore, the provisions of title I, generally, it being understood, however, that they are not intended to limit our activities in this area under our general enabling authority. It should further be noted that we are not prepared at this time to justify undertaking all of the specific services contemplated by title I, e.g., advertising of trade services and trade and investment opportunities in private commercial informational media, or the acceptance of paid advertising in appropriate departmental publications.

It is hoped that information could be developed in the course of public hearings on S. 1729 and otherwise to provide a basis for determining the need and desirability of these and other new activities provided for in title I.

Title II of S. 1729 would authorize the Small Business Administration to undertake services of a similar nature and for the same purposes as authorized in title I, but restricted to small firms. We believe these provisions to be unnecessary in that they would, in effect, authorize services to small business already authorized and actually being performed in this area by the Department of Commerce and the Small Business Administration.

Our existing informational and advisory services are designed and made available for use by all firms, both large and small, and our experience shows that small firms are by far the most frequent and extensive users of our services. For example, last year almost 80 percent of actual sales of so-called trade lists to facilitate the establishment of oversea business connections were made to small firms. And 70 percent of the sales of World Trade Directory Reports, containing information as to the resources and special qualifications of foreign firms, were made to small businesses as well as a similarly high percentage of our special "trade contact surveys."

This experience is generally true of most of our other services, and it results, of course, from the fact that, unlike larger firms, small businessmen ordinarily have neither the financial nor personnel resources to gather the information required for the conduct of oversea operations.

We are very much aware of the need and opportunity to bring more American businesses, particularly small firms, into the export field, and are expanding existing services and developing new ones to accomplish this purpose.

For example, through our domestic field offices and with the cooperation of local chambers of commerce and other business associations, we have recently been holding export promotion and expansion workshops throughout the country. Increased funds being made available for the current fiscal year will permit an increase of these and other direct efforts on our part to reach the small business community.

The Department of Commerce and Small Business Administration have recently reached what we believe should be an effective working arrangement for handling their respective roles in developing our export trade. In general, this will provide for referral to the Department of Commerce of individuals or firms which, through SBA counseling, have become interested in exporting and which require technical information, data on trade opportunities, and other trade services.

The two agencies likewise intend to cooperate in the administration's new program of trade stimulation, with particular reference to encouraging small business participation in trade conferences, trade fairs, and trade missions.

We are aware that avoidance of duplication may be a continuing problem, but we believe that the new arrangement is a constructive first step in a process of achieving closer association between the two agencies.

Title III of S. 1729 provides for a Foreign Commerce Corps. This title calls for the establishment of the Department of Commerce as U.S. Government headquarters for foreign trade promotion with full responsibility for activities at home and abroad.

It would create an integrated personnel structure providing rotation of personnel among headquarters in Washington, the field offices of the Department of Commerce throughout the United States, and commercial offices overseas.

It is certainly true that the present system has not yet provided an adequate degree of specialization in commercial services. While there have been some recent improvements in our commercial oversea activities they have not been strengthened to the extent required to carry out the vital and forward moving export expansion program which Commerce is now developing.

We recognize that the present dependence of the Department of Commerce upon the Department of State for handling oversea commercial services is an almost unique relationship. The return of the agricultural attachés to the Department of Agriculture in 1954 left the Department of Commerce as the only agency with substantial oversea responsibility that must still rely on the Department of State for the performance of its operational activities abroad.

The list of departments and agencies with their own oversea operations includes the Department of Defense, the Department of Treasury, the Department of Agriculture, the Department of Justice, the CIA, the USIA, and ICA—to be continued under the AID—and others.

Despite the existing fractionization of U.S. oversea services, this Department continues to believe in the desirability of a unified Foreign Service. We subscribe to the view that the Ambassador, as the President's representative abroad, must be the U.S. spokesman for the interests of all Government departments. But this in no way lessens the need to provide the finest specialized commercial service possible, one which can best serve both the Ambassador in the field and the Department of Commerce at home.

The capacity of the Department of Commerce to carry out the administration's program for the promotion of our foreign commerce hinges directly on improving the caliber and prerogatives of our oversea commercial services. Basic changes will be required to create a truly specialized commercial service.

We sincerely believe we can achieve these desired objectives within the framework of the Foreign Service, but some of the present "generalist" concepts applicable to the Foreign Service will necessarily have to be modified. The responsibilities of this Department require that our oversea officers be adequately trained and fully familiar with the needs of the American business both here and abroad.

Not only must they get to know the foreign business situation, but they must also have an intimate and extensive knowledge of the structure and practices of business in the United States. These officers, furthermore, must be interested in and available for continuing service in the commercial field.

A specialized commercial service within the regular Foreign Service must be supplemented by the resources of the Department of Commerce and American business. We plan to strengthen our organiza-

tion at home so that more Department of Commerce personnel can be assigned to commercial positions overseas.

We will also set up a reserve corps of businessmen upon whose services the Department can draw for temporary overseas assignments.

We have been meeting with the Department of State in a new attempt to accomplish our objectives within the present Foreign Service framework. We have agreed to establish a task force which will explore all existing problems and make recommendations to Secretary Rusk and the Secretary of Commerce for the improvements that are necessary to fulfill our needs.

This task force will concentrate on drawing up plans for commercial specialization within the Foreign Service. It will establish revised personnel policies and procedures including recruitment, assignment, promotion, training, and provision for rank and title that will give commercial officers the status they need to do the job.

Attention will also be given to strengthening the role of local employees who provide continuity of commercial service. It will deal with instructions to the field. Related administrative matters will be covered, including inspection of commercial activities, local travel, representation, provision of adequate quarters for commercial personnel, expansion of trade conference work, support for Commerce operational programs, and improvements for speeding up communications.

The task force will also consider assigning to the Department of Commerce the job of developing oversea commercial requirements, both for staffing and facilities. It will seek to improve budgetary practices and procedures so the commercial requirements may be most effectively presented to the Congress even though the Department of Commerce and the Department of State deal with different committees, both on the appropriations and substantive side.

The task force is being asked to submit an agreement for signature by Secretary Rusk and by the Secretary of Commerce by October 1, 1961. We are confident and we know you would agree that if our problems are approached with the proper spirit they can be satisfactorily solved.

Title IV of S. 1729 is concerned with export credit guarantee programs to be carried out by the Export-Import Bank of Washington. The Department of Commerce has worked with the Export-Import Bank in developing programs designed to achieve the objectives of title IV. Since this title would administratively affect the Bank's operations, we would defer to its views on these provisions.

The Bureau of the Budget advises there is no objection to the submission of this report from the standpoint of the administration's program.

Senator ENGLE. Mr. Secretary, we have two problems with this legislation affecting the Department of Commerce.

One is the relationship with the Small Business Administration, and the other is the relationship with the State Department. I observe that you say on page 2 of your statement that you believe that the provisions of title II are unnecessary. That, of course, is the position taken by Mr. Horne. Mr. Horne not only said that the provisions were unnecessary, but that they acted as a limitation on the present authority of SBA in this field.

We can very easily strike that out of the bill. But the suggestion was made that we adopt the provisions of the bill S. 1379, the bill introduced by Senator Sparkman and others. There is a section in there, section 7, that was favored by Mr. Horne. Have you explored the idea of taking section 7 of this bill and substituting that for our title II?

Mr. GUDEMAN. I personally am not acquainted with that. I would like the Deputy Assistant Secretary, Mr. Behrman, if he would, to answer on that.

Mr. BEHRMAN. I would be glad to.

I am Jack N. Behrman, Deputy Assistant Secretary for International Affairs.

We have discussed this matter with the SBA and with the Budget Bureau. We feel that there is a serious problem of duplication between the Department of Commerce and SBA and that we will work this out, through the arrangement which we have been discussing with them during the past week, in a manner which will provide us more flexibility and more ease in working out future problems than if our relationship were put into a legislative act which might bind us in one way or another as to our mutual responsibilities.

Senator ENGLE. What you are saying is that you think you can do informally a better job than you could if we had this written into the law and thereby become, to that extent, mandatory and perhaps to some extent inflexible?

Mr. BEHRMAN. Yes, sir.

Mr. GUDEMAN. Yes sir; we do.

Senator ENGLE. Section 7 of this Sparkman bill, S. 1379, authorizes the Small Business Administration to set up a division to be known as the Foreign Trade Division, to be headed by a Deputy Administrator. He is directed and authorized to undertake a program for the expansion of export services provided by the Small Business Administration, and so forth.

Mr. GUDEMAN. Mr. Chairman, we do not believe that that is required or necessary. We believe that if that were done, it would cause duplicating with just what we are doing through our field offices.

Senator ENGLE. That is the problem I presented to Mr. Horne. There is always a tendency in each one of these departments to want to be the chief cook in the kitchen. I don't blame them for that. But you do get the problem of overlapping and duplication.

Mr. GUDEMAN. I think, sir, if I can answer that, I believe that the discussions that have been going on during the past 10 days—and you referred to this in your opening statement—

Senator ENGLE. Yes. When Mr. Horne was here I asked him to get right down and see Secretary Hodges and his people about this, and see if they could not get together.

Mr. GUDEMAN. Let me tell you what happened.

Specifically, Mr. Horne phoned me and we talked over the phone. And then our two departments did get together and we have been together two times so far and are in the process of working out an arrangement which we are going to call the Arrangement Between the Department of Commerce and the Small Business Administration on Cooperation in Promotion of Foreign Trade.

I don't think it is necessary, unless you wish me to, to go into all the details of what we have been discussing. But specifically certain things I think you will be interested in. We will work together. We will see to it that there is no duplication between our efforts.

SBA has 31 offices that are located in cities where we do not have any field office ourselves. We have 33 offices. They duplicate some of our offices, and then they have these additional 31.

We will include their 31 offices, sending our literature and our information into those offices, so that foreign trade promotion can be done through those offices from material furnished by the Department of Commerce.

Conversely, in our 33 offices they will send people to us who come to them for foreign trade information and literature and the like.

We believe, and I believe this from my own conversations with Mr. Horne, that we can work this out so that both of us will benefit and so that we will both be doing a better job.

Senator ENGLE. Do you expect to formalize your agreements in a memorandum of any type?

Mr. GUDEMAN. Yes, sir; we certainly do.

Senator ENGLE. How soon will that be available?

Mr. GUDEMAN. I am very hopeful that that will be available by the middle of next week.

Senator ENGLE. Would you have any objection to supplying the committee with that memorandum?

Mr. GUDEMAN. We would be glad to do so. We have a tentative memorandum already which was gone over as late as yesterday afternoon at SBA. Mr. Horne has not seen it yet, because our people went over it with the SBA people.

We would be glad to submit this tentative one to you and then submit our final agreement with them.

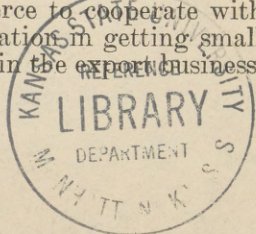
Senator ENGLE. We would like to have it because, if nothing else, we would want to refer to it in the report on this bill, in order that it may be apparent to everybody that this subject matter has been changed.

There is one other thing we would like to have in connection with this, and that is a statement from either the Small Business Administration or Commerce or both as to whether or not they need additional legislative authorization in order to implement the agreements arrived at.

Mr. GUDEMAN. We will give you that.

Senator ENGLE. We may strike title II from this bill and substitute for it only a general direction for the Department of Commerce to cooperate with Small Business Administration so that you have a legislative direction to do it.

I think otherwise we might be criticized for not paying more attention to small business in this field. But we want to do it in the most effective way that we can. If you get that up to us we will take care of title II on the basis on which you people finally make an agreement, and perhaps include in the bill as a substitute for title II just a general direction to the Secretary of Commerce to cooperate with and coordinate with Small Business Administration in getting small business the maximum amount of participation in the export business.



Your statement on page 2 refers to title I, saying that they are not intended to limit our activities in this area under our general enabling authority. Of course that is the point Mr. Horne made when he came up here with respect to title II. His fear was that a specific legislative direction might act actually as an inhibiting proposition.

We will examine the language—we would suggest that you do, also—so that either legislatively or in the committee report we will make it clear that title I is not an inhibition of existing authority, but to the extent that it gives a direction in that area it is in addition. We will do that in the report or in the bill as appears to be the most advisable.

We would like to have your advice on that subject in writing.

Mr. GUDEMAN. At the same time?

Senator ENGLE. Yes. By the middle of next week if you can get it, because we intend to move this bill.

With reference to a further subject mentioned, and that is the subject of paid advertising in appropriate departmental publications, I have a series of letters here, one of them from the Associated Business Publications, on the letterhead of Wyatt, Saltzstein & Inman, attorneys at law, in which they enclose a memorandum in support of S. 1729, but in opposition to title I, section 101, subsection 10 thereof, which relates to placing of commercial advertising in governmental publications.

There is also a letter from the Magazine Publishers Association of July 19—each of these is addressed, incidentally, to the chairman of the full committee, Senator Magnuson. And a letter from National Business Publications of July 18, in which the same position basically is taken.

Without objection, these letters will be made a part of the record. And the Chair wants to state that from his point of view the Government ought not to get into the business of accepting paid advertising for departmental publications.

It is the intention of the chairman, when this bill is marked up, to strike that provision from the bill.

(The letters referred to are as follows:)

WYATT, SALTZSTEIN & INMAN,
Washington, D.C., July 6, 1961.

Senator WARREN G. MAGNUSON,
U.S. Senate, Old Senate Office Building,
Washington, D.C.

DEAR SENATOR MAGNUSON: The Associated Business Publications supports the purposes of S. 1729, but respectively objects to subsection 10 of section 101 in title I. That section would authorize the Secretary of Commerce to publish a journal containing advertising.

We have communicated our views to the committee staff. We also know that other publishers groups oppose this section.

We are aware of the fact that the committee is pressed for time and under that circumstance, rather than request an appearance, we would very much appreciate it if the attached statement could be inserted into the record recording our objection to the foregoing section only.

Very sincerely yours,

ROBERT A. SALTZSTEIN.

THE ASSOCIATED BUSINESS PUBLICATIONS MEMORANDUM IN SUPPORT OF S. 1729,
BUT IN OPPOSITION TO TITLE I, SECTION 101, SUBSECTION 10, THEREOF

Our objection is directed to that portion of the section which authorizes the Secretary of Commerce to publish "a suitable journal or magazine containing developments in American industry and advertisements of established American individuals, firms, or business organizations on a paid basis. * * *"

The Associated Business Publications is an organization of 170 technical, scientific, and marketing publications, each directed to a specific industry. To qualify for membership, a publication must have paid circulation, and be audited by the Audit Bureau of Circulations, the same auditing bureau which audits newspapers and general magazines.

Among the companies whose publications belong to the Associated Business Publications are Miller Freeman Publications of San Francisco (Pulp and Paper and the Lumberman), McGraw-Hill Publishing Co. of New York (Aviation Week, Factory, and Electronics), Reinhold Publishing Co. of New York (Materials in Design Engineering), Reuben H. Donnelley Corp. of New York (American Journal of Surgery), F. W. Dodge Corp. of New York (Architectural Record), Fairchild Publications of New York (Supermarket News and Women's Wear Daily), Oil and Gas Journal of Tulsa, Editor and Publisher, to name a few.

There has also developed within the business press, a group of association publications published by nonprofit organizations. Examples of these publications are the Journal of the American Chemical Society published by the American Chemical Society, Proceedings of the I.R.E. published by the Institute of Radio Engineers, Banking magazine published by the American Bankers Association, to name a few. Each of these publications solicits advertising and pays no taxes on the profits derived therefrom. This subject is currently under review by the Internal Revenue Service.

If the U.S. Government now publishes a magazine which accepts advertising, it will create the most extreme example of a nonprofit nontaxpaying entity, competing with already existing taxpaying publishers. Moreover, advertisements appearing in the magazine might imply endorsement of the product advertised therein by the U.S. Government. It is not impossible to visualize advertising salesmen soliciting advertising on the basis that the publication is Government sponsored and it would be advantageous to the advertiser to buy space in the subject publication.

The Associated Business Publications has an editorial division. While the editors of our publications must evaluate every news item on the basis of news value, it would appear to us that this large group could well be harnessed into the foreign trade program. Various devices, including meetings and editorial background conferences, could be initiated for this purpose.

Certainly we have no objection whatsoever to the dissemination of information by any Government agency through a bulletin which does not accept advertising, provided that the same information released in that bulletin is also made available to those press organizations which, through the taxes they pay, help support the Government releasing that information.

We would like to note that the activities of our membership in foreign fields is constantly increasing, and we would like to explore with any interested organizations or persons ways in which the business press can be of greater assistance. We do not believe that organizing new publications which are operated commercially, and which accept advertising, as a governmental activity will make a contribution in this regard.

MAGAZINE PUBLISHERS ASSOCIATION, INC.,
Washington, D.C., July 19, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Senate Commerce Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: I enclose herewith a brief memorandum reciting the position of the Magazine Publishers Association, Inc., opposing a certain provision of subsection (10) of section 101 under title I, S. 1729.

I trust you will permit this matter to be inserted in the record at the appropriate place.

Respectfully yours,

FRANCIS R. CAWLEY, Vice President.

MEMORANDUM OF POSITION ON S. 1729

Generally speaking, we support the provisions of S. 1729 as a move in the right direction to promote foreign commerce in the United States.

However, we question the wisdom of subsection (10) of section 101 under title I. This is the section which would authorize the Department of Commerce "to compile, edit, and publish in English and such other languages as deemed necessary, a suitable periodic journal or magazine containing developments in American industry and advertisements of established American individuals, firms, or business organizations on a paid basis and to make such journal or magazine available without charge to foreign firms, individuals, and business organizations as a means of publicizing business opportunities and to attract foreign nationals to the services and facilities available through the Foreign Commerce Corps and the Department of Commerce." [Italic supplied.]

We agree with this subsection, except for the portion I have italicized. A magazine of the kind suggested would be a worthwhile addition to the information now published by the Department. It certainly would be useful to have such a magazine telling people overseas about developments in American industry. However, and this is the point on which we differ, it seems to us that such a magazine should not carry the paid advertising of American companies.

This would be Government competition with the established international magazines which are now carrying the export advertising of American advertisers. While the editorial content of these magazines may not be the same as that envisioned for the new Department of Commerce magazine, the advertising they carry nevertheless does accomplish precisely what is intended by the provision of subsection (10). We urge that the italicized portion of this subsection be deleted from the bill because it represents unnecessary encroachment of a public agency on a private domain.

NATIONAL BUSINESS PUBLICATIONS,
Washington, D.C., July 18, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Senate Committee on Interstate and Foreign Commerce,
Senate Office Building, Washington, D.C.

DEAR SENATOR MAGNUSON: We write in connection with S. 1729—now before the Senate Committee on Interstate and Foreign Commerce—and, more specifically, that portion of the bill which would authorize the Department of Commerce "to compile, edit and publish in English and such other languages as deemed necessary, a suitable periodic journal or magazine containing developments in American industry and advertisements of established American individuals, firms or business organizations on a paid basis and to make such journal or magazine available without charge to foreign firms, individuals and business organizations as a means of publicizing business opportunities and to attract foreign nationals to the services and facilities available through the foreign commerce corps and the Department of Commerce."

As you know, we had been scheduled to testify on July 20, but, because of the pressing schedule facing your committee, hearings for that date have been canceled. Therefore, this letter is to convey to you the position of this association of 210 privately owned, taxpaying specialized business publications, relative to S. 1720.

The basic objectives of that bill are most commendable and we applaud them. Unquestionably, the desire to retain the economic leadership of the world for the United States is shared by the authors of this bill and the specialized business press. However, we believe that the implications of the section under discussion have not been adequately recognized and it is to aid that recognition that we offer this opinion and ask that it be made a part of the hearing record.

The specialized business press of this country regularly renders invaluable service to its readers and the Nation—here and abroad—through dissemination of vital know-how information—by means of its editorial and advertising content. Unquestionably, the Nation's trade, technical, professional, scientific, industrial, merchandising and marketing magazines—as represented by National Business Publications—are effective vehicles for the dissemination of the type of information which the Commerce Department, in its trade-promotion efforts, seeks to promulgate around the world.

Nevertheless, we do not question the right of a Government agency or department to publish and distribute a periodical calling attention to developments in American industry. However, when, by such action, the Government of the United States engages in a profit-producing enterprise—the sale of advertising—openly competing with privately owned, taxpaying businesses, we consider that it exceeds the bounds of good government and contradicts the principles of the free enterprise system. We have been given to understand that the Department of Commerce does not favor that portion of S. 1729 previously quoted and that it is to make its position known to the committee.

As previously stated, we are in general agreement with the main points of S. 1729 and, in commending it, perhaps it is only natural that we would single out that section dealing with a Commerce Department activity with which the business press is already well acquainted—the trade missions program. For some time—as an association and on an individual publishing company basis—we have supported the work of the Commerce Department's trade missions. Since their inception, we believe, many of our member companies have, with the coordinating assistance of this association, regularly contributed copies of their publications—at considerable expense to themselves—to the Commerce Department, so that trade missions might go forth equipped with libraries containing, as nearly as possible, the best available examples of America's adult-education periodicals.

Some of our members have taken time from their occupations to serve on such trade missions. Therefore, we know firsthand the positive accomplishments produced through face-to-face meetings of U.S. businessmen and their foreign counterparts. We enthusiastically support the trade missions program and heartily endorse any measure which would expand its activities.

In summary, Mr. Chairman, we do not believe it is the Government's intention—nor its place—to enter into business competition with its citizens. We believe in the basic objectives of S. 1729. We strongly believe that the deletion of the section relating to the publishing of paid advertising in Commerce Department publications will still retain the bill's strength and permit the Department to carry out the objectives of the bill—within its proper bounds. Many thanks for your understanding and courteous consideration.

Sincerely,

ROBERT E. HARPER, *President.*

Senator ENGLE. The next question relates to the Foreign Commerce Corps. Your statement in this respect is just a little wobbly, Mr. Gudeman.

I want to know: Are you for the corps or against it?

Mr. GUDEMAN. I would like to answer that a little differently, if I may. May I?

Senator ENGLE. Do you mean you want to straddle it again?

Mr. GUDEMAN. On a time basis; yes.

Let me put it this way: I think that your bill, Mr. Senator, has done a great deal of good here in causing this State Department and the Commerce Department to get together and really to examine this and to discuss it.

We would like to have time to see whether this could not be worked out with the State Department. We believe from the conversations that we have had so far—and they started right out with Secretary Rusk and Secretary Hodges and then down to Bowles and all the rest of us sitting at this table—I would like to say that we think that this can be worked out to everyone's satisfaction so that we will strengthen our commercial attachés' position abroad and provide the type of service that is required.

As stated in this letter to you, we will know whether this can be done by October 1. We would like to have that long to try it out. If by that time we see that it cannot work out, we would like to come back to you. That is the stretch.

Senator ENGLE. We are not going to wait that long to get this bill out.

I observe on page 4 of your statement you say, and I quote you :

These officers furthermore must be interested in and available for continuing service in the commercial field.

I think you put your finger on the nub of the case.

My objection to this commercial attaché system is that you cannot in the very nature of things establish a career service for commercial attachés as long as they are part and parcel of the Foreign Service. They think that that is collateral to their career in the diplomatic service. They can't come to any other conclusion. And as a consequence, people who go into the Foreign Service and are sidetracked, as they would call it, into the commercial attaché business, figure that they are not in the main stream which would lead to the kind of promotion, the sort of advancement, and the opportunities for the future which would create the sort of career service we need and the permanence and the excellence of personnel that this service ought to have.

I believe, and I told the State Department when they were here, that it is inherently impossible to come up with the kind of career service we ought to have as long as we keep commercial attachés in the Foreign Service.

If I were a young man going into the Foreign Service, I would go in because I want to be a Foreign Service officer and I would want to go up through the channels eventually to an ambassadorial level or some high level in the State Department. It is patently impossible to do that in my opinion where a man becomes a commercial attaché.

Mr. Jones was here and he said that these commercial people were getting more and more recognition in the State Department. I suspect from time to time they do, just like non-West Pointers occasionally make it in the Army. But they have their work cut out for them, you can bet on that. And when you get a fellow like George C. Marshall, as Chief of Staff, or Chairman of the Joint Chiefs or something like that, it is quite unusual. There is a lot of eyebrow-hopping in the Pentagon when it occurs, and we all know it.

The same thing is true with reference to this business of commercial attachés. I am disappointed that the Department of Commerce has not fought a little harder on this particular proposition.

I agree with you that we have put the heat on the State Department, and we have made them move a little better than they have, and they realize they have to get going. But we are not going to strike this section from the bill if I can help it.

My present intention is to put in the bill an authority for the President to initiate a corps of commercial attachés in the Department of Commerce. We won't tell him to do it; we won't order it to be done, but we will hang it like the sword of Damocles right over the heads of these fellows in the State Department, and if they do not get up and move, I am going down to the White House and get the President to haul them right out of the Department of State and put them over in the Department of Commerce where they ought to be.

What do you think of that suggestion?

Mr. GUDEMAN. I think your statement is very well made, and I would like to say if we cannot work out with the State Department to do exactly what you say, namely, give the commercial attachés such

responsibility and such prestige that they can work up the ladder of advancement like anybody else, then I think that we will have failed and I will go along with you a hundred percent.

We are working toward attaining a specialized commercial corps within the State Department. That is what we have under discussion with Under Secretary Bowles and with his Deputy, Roger Jones.

Our last meeting was yesterday afternoon in my own office, as a matter of fact, with Roger Jones and some of his associates, to put to work the two task forces that we have set up to do exactly what you are saying, sir.

If you want a sword, that is fine, because we will come back to you.

Senator ENGLE. After this bill is passed and becomes law without the provision in it for a commercial attaché corps, the State Department then can feel secure in having beaten back this attack upon their jurisdiction and prerogatives, and will then lapse back into the old indifference with respect to commercial attachés and we will be right back where we started. They will say, "Nobody is threatening us now."

That is why I want to frame this bill in such a way that we can move quickly, if we have to, right down into the White House, and force this along. I suspect that at this late date in the session we might not be able to get this bill through the House. But I would like to see it get through the Senate before we adjourn so that we can move very rapidly on it on the other side early in the next session, if we are not able to get it through before the adjournment of this Congress.

We have the problem I have mentioned with reference to the corps. You have the problem with the SBA. And next week, on Monday, we have the Export-Import Bank coming up. I understand they are unhappy about some things in the language in this bill with regard to this credit situation. Not that they don't want more power, but they do not want to be directed to do things. We will have to discuss that with them.

Thereafter we are practically ready to mark this bill up.

Unless you have something further to add, Mr. Gudeman, we will expect to hear from you in the middle of next week with respect to this SBA matter.

The commercial attaché situation we will have to hold in abeyance until October 1. But if the bill is not through the House, we will get another look at what Commerce and State have come up with with respect to an agreement. Even as late as that time we can change this bill.

Mr. GUDEMAN. If we arrive at some firm conclusions with State before that date, we will bring them to you and go over it with you.

We would like to do that very much.

Senator ENGLE. Incidentally, with reference to title I, would you have your people take a look at it with reference to the question I raised and which you raised in your statement; namely, we do not want to limit, we don't want to act as a limitation on the existing powers of the Department of Commerce.

We want to make sure that the language does not do that. If you will get us a little memo on that as to what you think, we can either state the matter in the report or we can modify the bill, to make it apparent that that is not the legislative intention in passing the bill.

Mr. GUDEMAN. We can have that for you.

Senator ENGLE. Do you have a question?

Mr. LEVIN. On the bottom of page 4—I realize this is in the processing stage with your task force—you mention sending Commerce Department personnel overseas.

Is it your idea that you will have transfer provisions for the Commerce Department personnel to go overseas as commercial officers?

Mr. GUDEMAN. Yes; yes, indeed.

Mr. LEVIN. Therefore they would have the opportunity to go out, and then come back to the Commerce Department?

Mr. GUDEMAN. Yes; if I may expand on that a moment.

Mr. LEVIN. I would like you to.

Mr. GUDEMAN. This is my own thought and I feel very strongly on this point. I have learned it in industry in the years that I spent in business. I believe anybody who grows up in the home office does not know fully what is going on out in the field.

Conversely, anybody who grows up in the field, does not know what is going on in the home office. There must be a constant interchange. I don't mean by that that it is done on any kind of a monthly basis, but a man stays in the field for 2 or 3 or 4 or 5 years, and then, depending upon his ability and the needs at home in the home office, he comes in.

All this is done on an advancement basis, through promotion. And then again maybe he goes out, or maybe he stays in the home office while somebody else who has started here in Washington and develops goes out into the field. This applies to our field offices in this country as well as to foreign posts.

Mr. LEVIN. Thank you.

Mr. GUDEMAN. Does that answer your question?

Mr. LEVIN. Yes; it does.

Senator ENGLE. If there are no further questions, the committee will stand adjourned until Monday, when we will hear the Export-Import Bank.

Thank you, Mr. Gudeman.

Mr. GUDEMAN. Thank you.

(Whereupon, at 10:50 a.m., the committee was adjourned, to reconvene at 10 a.m., Monday, July 24, 1961.)

(The following information was subsequently supplied for the record:)

ARRANGEMENT BETWEEN THE DEPARTMENT OF COMMERCE AND THE SMALL BUSINESS ADMINISTRATION ON COOPERATION IN PROMOTION OF FOREIGN TRADE

The Small Business Administration recognizes the Department of Commerce's primary responsibility in the field of foreign trade and investment. The Department of Commerce likewise recognizes SBA's responsibility of aiding, assisting, counseling, and protecting small business to strengthen its position in the national economy. Recognizing their responsibilities, the two agencies have agreed to divide program operations so as to lessen the possibility of duplication.

The Department of Commerce is responsible for servicing the technical needs of business in the development of trade opportunities. The Department of Commerce and the Small Business Administration can, therefore, in cooperation with the Export-Import Bank, and other appropriate agencies of the Government, each make a contribution to the effort to stimulate interest in foreign trade on the part of domestic small businesses.

Many small companies are qualified to export. The mutual responsibilities of the two agencies are: (1) to determine who they are, and (2) to encourage them to export. SBA would help the potential exporter analyze the adjustments

which he would have to consider prior to his decision to enter this field of activity, including such subjects as staffing, financing, production capacity, cost control, and similar items.

Should the owner make the decision to export, SBA will refer him to the local Department of Commerce office for discussion of and guidance in the technical export problems involved. In those cities in which the Department of Commerce does not have a field office (currently 31), SBA will furnish technical information which has been prepared by the Department.

The cooperative arrangements which have been evolved between the Department and the SBA with respect to the latter's activities in stimulating interest in exporting are as follows:

1. *Short conferences and SBA business opportunity meetings.*—SBA will continue and expand its series of short conferences sponsored by educational institutions and business and trade groups. The Department of Commerce will be glad to cooperate by furnishing panel members, speakers, and selected publications. The Department of Commerce will also supply SBA with the names of the chairmen and members of the regional export expansion committees so that their cooperation may also be secured. SBA will cooperate similarly with respect to the Department's activities.

2. *Management courses.*—SBA will continue its management courses, and increase its offerings to include courses directly wholly or in part to export trade. The Department of Commerce will cooperate by furnishing discussion leaders and selected publications which may be used as course material. Appropriate regional export expansion committees will also be requested to cooperate in the conduct of the courses and in encouraging small concerns to attend.

3. *Publish management aids.*—SBA will publish management aids on export trade subjects. The Department of Commerce will continue its arrangement of reviewing aid manuscripts prior to publication.

4. *Foreign trade research.*—SBA will direct its research primarily to the subjects of how to interest small business in exporting and how to counsel them on export-management problems. The Department of Commerce will review and comment on SBA research proposals and reports.

5. *Individual counseling service for small business.*—SBA will, in conjunction with its counseling and assistance to small business on financial, product, procurement, production and management problems, counsel these companies on whether to enter export trade and management problems concerning exports. When requested by SBA, the Department of Commerce will cooperate by providing information to which they have access which would be specifically beneficial to small firms to enable SBA to carry out its counseling function. The Department of Commerce will furnish selected publications and promotional material to SBA field offices and the Washington office in sufficient quantities to serve the needs of small business. Paid publications will be furnished in sufficient quantity for display purposes in SBA field offices. The Department of Commerce is now supplied with multiple copies of SBA's free and paid publications. The Department of Commerce field offices will cooperate with SBA field offices so that proper referral may be made by SBA of businessmen needing technical export information and the Department's field offices will refer small businesses to SBA for counseling as to financial and management assistance programs (including export management problems) and on whether to enter the export field.

6. *Small business participation in trade fairs, trade centers, trade missions, and terminal conferences.*—SBA will be expected to stimulate the interest of small businesses in participating in trade fairs, centers, missions, and conferences. The Department of Commerce will provide the SBA offices with information concerning schedules and procedures to facilitate and encourage small business participation and, where appropriate, SBA participation. This information will be supplied well in advance of the scheduled dates of such fairs, etc.

The Department of Commerce and the Small Business Administration will issue simultaneously appropriate directives to the field in order to implement the above programs.

LUTHER H. HODGES,
Secretary of Commerce.

JOHN E. HORNE,
Administrator, Small Business Administration.

AUGUST 1, 1961.

AUGUST 1, 1961.

FOREIGN COMMERCE

MONDAY, JULY 24, 1961

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to adjournment, at 10 a.m., in room 5110, New Senate Office Building, Hon. Clair Engle presiding.

Senator ENGLE. The committee will be in order for further consideration of S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes.

It is my personal belief that one, if not the most important criteria for a successful export promotion program, is an adequate guarantee program—one which covers political as well as commercial risks. I feel that title IV of S. 1729 would provide the basis for such a program through the agency of the Export-Import Bank.

In prior hearings on this bill we have heard a great deal said about the absence of a credit guarantee program in the United States which compares with those of the great trading nations of Western Europe and Japan.

The witness today will be Mr. Harold Linder, President and Chairman of the Export-Import Bank of Washington. Before you give me your comments on this bill, Mr. Linder, I feel that I should point out that we have already heard from the other Federal agencies involved in this legislation—the Commerce Department, State Department, and Small Business Administration.

I hope, Mr. Linder, we can at least agree upon the need for an export-credit guarantee program, and whatever suggestions you have to improve what we put in the bill will be welcome.

Do you have a prepared statement, Mr. Linder?

Yes, I see that you do.

Mr. LINDER. I do, Mr. Chairman. But there will be a few minor alterations.

Senator ENGLE. You may read it for the record, or put it in the record, whichever you prefer. I see that it's fairly short.

Mr. LINDER. I prefer to read it, Mr. Chairman.

**STATEMENT OF HAROLD F. LINDER, PRESIDENT AND CHAIRMAN,
EXPORT-IMPORT BANK OF WASHINGTON; ACCOMPANIED BY
TOM KILLEFER, FIRST VICE PRESIDENT AND VICE CHAIRMAN;
R. HENRY ROWNTREE, CHIEF, ECONOMICS DIVISION; AND WARREN W. GLICK, COUNSEL**

Mr. LINDER. For the record, my name is Harold F. Linder, and I am President and Chairman of the Board of Directors of the Export-Import Bank of Washington.

Before I proceed, I would like to introduce Mr. Tom Killefer, who is to my right, first vice president and vice chairman of the board; Mr. R. Henry Rowntree, chief of our economics division, who has concentrated particularly on the import and export guarantees, and Mr. Glick of our legal program, who has been devoting himself to that work almost to the exclusion of anything else in the Bank.

Mr. Chairman, it is a very welcome privilege to discuss with you the means of providing adequate guarantees for united exporters who sell abroad on credit terms. Your personal interest and that of other Senators in helping the Bank to solve this problem is deeply appreciated.

I shall presume to speak only on title IV of S. 1729 since it is this title alone that deals with the activities of the Export-Import Bank. As I indicated in my letter of May 15, 1961, to Senator Magnuson in response to his request for comments on S. 1729, the provisions of subsections (c) (1) and (2) of title IV would assist the Bank in performing its functions. I hope the substance of these two subsections will be approved as an amendment to our act.

Similarly, I hope approval will be given to the proposal to extend the life of the Bank to June 30, 1968. Such an extension would be helpful in a number of respects, of which one would be facilitating the conclusion of contracts with the association of major insurance companies for the issuance of comprehensive guarantees to exporters.

It is with respect to the remainder of title IV that I wish to seek your further assistance. I urge that these remaining subsections be deleted from the bill. They contain specific and restrictive definitions and directives which would interfere seriously with the wide flexibility now fortunately possessed by the Bank to adjust its facilities to meet unforeseen and rapidly changing conditions in world markets. I feel sure that they were included in the bill with the intention of encouraging and helping the Bank to meet new conditions in world trade. It is my considered opinion, however, that they would fail to accomplish this purpose and I therefore ask that they be dropped.

As you are aware, the Bank has been in existence for more than 27 years. Its record, which is well known to you, has been made possible in part by the very breadth of authority conferred by the Bank's enabling act.

Mr. Chairman, we in the Export-Import Bank have not been blind to the recent balance-of-payments position of the United States, the changing circumstances of world trade, and the increasing competition faced by U.S. exporters in markets abroad. The Bank has revised its practices and expanded its services to exporters more than a year ago. Further changes were announced in March of this year, and I wish now to discuss still other and more far-reaching ones with you.

In his balance-of-payments message to the Congress on February 6, the President said in part, and I quote:

I am directing the President of the Export-Import Bank, by April 1, to prepare and submit to the Secretary of the Treasury, as Chairman of the National Advisory Council on International Monetary and Financial Problems, a new program under the Export-Import Bank to place our exporters on a basis of full equality with their competitors in other countries.

In compliance with this directive, the Bank prepared a new program which was reported to and accepted by the National Advisory Council on March 24 and was publicly announced the same day. Perhaps the most significant part of the program was the statement that comprehensive or all-risk guarantees will be provided for export sales on short-term credits to fill a major gap in credit assistance for U.S. exporters.

Recognizing that comprehensive guarantees should be made available on a national scale, the Bank was desirous of utilizing private initiative and capital to the maximum extent in support of this program. Accordingly, a Government committee was formed under the chairmanship of the Bank, with representatives of Commerce and the Treasury, and with two able consultants from outside the Government, to enlist the support of and participation by insurance companies and financial institutions in the provision and administration of these guarantees. This goal has been very actively pursued through more than a score of meetings with the major insurance companies, with brokers, and with insurance associations, as well as with financial institutions and others directly concerned with the problem. Moreover, we have informed ourselves thoroughly as to the methods used by the principal exporting countries abroad.

Mr. Chairman, may I report that while negotiations have not been completed, I believe that we shall in the near future work out an arrangement whereby a pool or association of insurance companies will issue to exporters throughout the country a comprehensive guarantee of export risks in connection with both short and medium term credits. The association would be open to any qualified insurance company that wishes to become a member. The single comprehensive policy to be issued would cover both commercial and political risks in a manner comparable to the policies issued by the leading export credit insurers in other countries. The association would be responsible for the administration of the guarantees, and its members together would assume initially a very substantial proportion of each credit risk insured. Export-Import Bank at the start would assume the remainder of each credit risk as a coinsurer and will assume the political risks involved. Premiums and expenses would be borne in proportion to the interests of the various parties concerned.

Completion of detailed arrangements for establishment of the association, its relationship with the Bank, and its issuance of guarantees to exporters are being pressed forward as rapidly as possible. Although time will be required to accomplish all of these steps, I am confident that the result will be a system of export guarantees which will meet Senator Engle's objective that our exporters be placed on a basis of equality with their competitors in other countries—as well as the objective which we all share and which is explicit in the Export-Import Bank Act. That is, wherever possible, the Bank should not compete with, but rather supplement, private capital. And I take it that it follows that we should use to a maximum extent the facilities and resources available in the private sector.

Before bringing my remarks to a close, I would like to comment on a misconception of the similarities which exist between direct lending and guarantees which has been evinced by some of those who have engaged in discussions of the guarantee problem. It has been said

that the fusion of banking and guarantee or insurance facilities in the same institution which applies the same criteria for medium-term insurance as it does for direct financing, results in an overly conservative approach to the use of comprehensive guarantees. In brief, the position taken by some persons is that the criteria which are appropriate for a lender of funds are too severe and so are not appropriate for a guarantor.

This position displays an unfortunate lack of understanding of the basic position of a guarantor. The fact clearly is that the risks assumed by a guarantor in a given case under a comprehensive or all-risk guarantee are precisely the same as the risks assumed by a direct lender. Thus if the guarantor and the lender are equally charged to operate in a self-supporting manner, or with reasonable assurance of repayment, or on any other reasonably business-like basis, the criteria which perforce must be employed by one will not differ from those used by the other to determine the creditworthiness of the buyer concerned or the foreign exchange prospects of his country.

The Bank in recent years has been criticized for conservatism and for being slow to reach decisions. If we sometimes have been slow to act, this is because we are careful how we risk the public funds. It is relatively easy to give a prompt reply when the answer is "No." More time usually is required to obtain additional information which may so strengthen a weak proposal as to permit answering "Yes" instead. As you are well aware, however, no guarantor or lender can say "Yes" to every request made of him for assistance. There will always be some persons who are dissatisfied with the answers they receive and who will not appreciate the fact that any lender or guarantor must look not only at the facts of a particular proposal, but also at the broader problems of the future prospects of the borrower and his country.

In concluding my remarks may I say that in our view there is no reason to create another organization sponsored by the Federal Government to offer guarantee facilities to exporters. The Export-Import Bank already is in existence to assist our foreign trade, has broad powers to provide guarantees, and is completing arrangements for their issuance through the cooperation of private industry. With the availability of these guarantees, the forms of assistance provided by the Export-Import Bank for U.S. exporters will not only be as good as those available to exporters, they will in fact be notably superior, because of the Bank's facilities for export financing, as distinct from guarantees, which still are envied by exporters in other countries.

In summary I would like to see enacted into law title IV, section 401, subsection (1)(c) (1) and (2), with the exception of the last eight words appearing on line 11, page 12 of the bill. I would also wish to have enacted subsection (2) extending the life of the Bank to June 30, 1968.

If the committee desires to take the time, we are prepared to discuss the subsections which we think may create difficulties. There is attached to my statement an appendix which sets forth these comments.

Thank you for this opportunity to appear before the committee, and for the attention my remarks have received. If there are any questions, I shall be happy to endeavor to answer them.

Senator SCHOEPEL. I would like to ask, Mr. Chairman, this question: Where you refer to the short-term and the long-term guarantees, would you explain briefly what you mean by that for the record?

Many people are going to be reading this record, and they will be asking about it.

Mr. LINDER. Generally speaking, Mr. Schoepfel, there has been a line drawn at 180 days; that is, credits extended for less than 180 days are generally regarded as short-term. Credits between 180 days and 5 years, with a few exceptions, notably in the case of jet aircraft, which is extended to 7 years, have been known as long-term exporter terms.

These lines of demarcation are not absolutely rigid, but they have been generally accepted both by us and by the banking community, and by the export guarantors abroad.

Senator SCHOEPEL. And that has been pretty generally in your experience found satisfactory, has it?

Mr. LINDER. Generally, yes, sir. We have considered at times extending the short-term period to 1 year, and we do on very rare occasions do that, but generally speaking this has been satisfactory.

Senator SCHOEPEL. The risk being over a longer period of time carries a heavier obligation from the standpoint of those receiving it as guarantors?

Mr. LINDER. That is correct, sir, by reason of the length of time.

Senator SCHOEPEL. I think this should be off the record, Mr. Chairman.

(Discussion off the record.)

Senator SCHOEPEL. What has been your experience in your program in South American countries, say in Brazil and Venezuela?

Mr. LINDER. It has been good. We have had delays, but on the whole we have been able to work them out and we have had very few losses.

Senator SCHOEPEL. You say that your program is equally as good as the guarantees from foreign countries. Many of the foreign nations guarantee it and have for a good many years from the standpoint of their own governments, haven't they?

Mr. LINDER. They have; their governments in many cases have been the underwriters, and in many cases have directly guaranteed supports.

Senator SCHOEPEL. Now, our program here approaches more from the private industry standpoint in cooperation with your bank and our Government; isn't that true?

Mr. LINDER. We hope there will be one salient difference. Until March of this year, these European competitors have given political risk guarantees on short-term—comprehensive guarantees on short-term credits. That is both political and credit risks. This we changed under our March 9 program.

Senator SCHOEPEL. I see. That probably accounted for the reasons when I had the opportunity of being in South America, practically all of the major countries down there, frequently I was consulted—at least I was accosted by some of the folks interested in exports from our country down there, saying that the programs that these foreign nations were guaranteeing in those respective countries were so far superior to ours that they were finding themselves hemmed in and closed out.

I assume that what you have mentioned there in your change would eliminate some of those objections.

Now, please don't understand me to say that they are valid; I don't know enough about it.

Mr. LINDER. Well, I believe the answer to your question is correct, Senator Schoeppel. Let me say just a little in addition. I have talked with British exporters, and British exporters complain that the Germans do more. I have talked with Germans who complain that the Americans do more, and I am sure the French agree that all three do more than their government does.

The fact is that that kind of complaint is a perfectly natural one. When a man misses out on a piece of business, he always hears the story about how the other fellow's government did more for him than his government did, and he forgets there may be prices, there may be terms, when his is willing to extend; there may be coloring, packaging, or any one of a variety of things which resulted in the competitor getting the business.

Now, the fact is that we have offered something, as my statement indicated, which no other government offered before, namely, financing. These other governments offered guarantees which are interpreted more flexibly than those accepted by commercial banks in this country, which don't have as rigid rules as our commercial banks do have in respect of short-term lending, but they have not actually been in a position until comparatively recently where they have been willing to put up the money. The Export-Import Bank has financed huge amounts of American exports through its project credits, which are the envy, as my statement said, of the rest of the world, and I suspect you would find many more complaints on the part of the British and Dutch and German and French manufacturers about what we did, than we would get about what they did.

Nevertheless, we hope to devise a system here which will have everything that they have, plus, and that is the ability of the Export-Import Bank to finance as well as guarantee.

Senator SCHOEPEL. Thank you very much.

That is all I have.

Senator ENGLE. I observe, Mr. Linder, you have an appendix to your statement which discusses in some detail the subsections of this bill with which you are not in agreement, and without objection that appendix will be made a part of the record following your prepared statement.

Mr. LINDER. Very good, sir.

(The document referred to follows:)

APPENDIX TO STATEMENT OF HAROLD F. LINDER, PRESIDENT AND CHAIRMAN OF THE BOARD, EXPORT-IMPORT BANK OF WASHINGTON, CONCERNING S. 1729

TITLE IV, SECTION 401

Subsection (1)(c)(3)(a) (line 12, p. 12 of the bill): The Bank would be required to assure "participating membership" to financial institutions as well as insurance companies in "any central credit clearinghouse or coordinating agency." This may not be possible to arrange with the insurance companies since they may not want the financial institutions as "participating members," although it is entirely possible that the insurance companies will want to establish close relations with financial institutions in order to obtain and evaluate credit information. Nor are we in a position to assure that all groups will have "free

access" to a central clearinghouse since the private insurance companies which may retain a repository of credit information may be reluctant to enter into such an arrangement.

Subsection (b) (line 19, p. 12) requires that both political and commercial risk policies be available at one place. If this means that a single comprehensive policy should be available throughout the country in as many communities as practicable, the provision would not be onerous since that is our intention.

Subsection (c) (line 25, p. 12) requires that guarantees be available for local currency costs of projects. The general policy of the Bank in the past has been to finance or guarantee only U.S. dollar costs. While in a few cases we have financed local costs, we do not believe we should be required to guarantee local currency costs although we would be prepared in appropriate circumstances to give sympathetic consideration to the merits of a specific case. We think a matter such as this should be clearly within the discretion of the Bank rather than mandatory.

In any event if the foregoing subsections remain in the bill, we believe line 12 should read "The Bank is authorized and empowered to" rather than "The Bank shall".

Subsection (1) (c) (4) (line 11, p. 13) authorizes the Bank to determine certain conditions of a guarantee. Because of the danger of inadvertent omissions, such a listing would be more helpful if on line 11, page 13, it read "(4) The Bank is authorized to determine all the terms and conditions of the guarantee program including but not limited to." The items contained in the remainder of the paragraph would then be set forth with the deletion of the words "to determine."

In this subsection on line 22 of page 13 are the words "in all respects" which we think should be deleted since this might require the Bank to include provisions in a guarantee whether or not they are wise or desirable. If subsection (4) should be included, we think that in line 22 of page 13 the word "fully" should be inserted between the words "guarantees" and "competitive" and the words "in all respects" deleted.

Subsection (1) (c) (5) (line 6, p. 14) : If we are correct in reading the "provided" clause to mean that the terms and conditions of the political risk coverage would be offered to exporters on a uniform basis per country, we do not think we would have any difficulty. However, there is a possibility that the proviso could be construed to prevent the Bank from distinguishing between the types of goods which should be eligible for guarantee for a particular country at a given time; and we strongly believe the Bank should retain its present discretion in these matters.

Subsection (1) (c) (6) (line 11, p. 14) regarding subrogation raises the following problems :

(1) Subrogation and property rights should inure to the Export-Import Bank rather than to the U.S. Government as the subsection is now written.

(2) In view of the fact that we may be issuing guarantees jointly with a private insurance association or directly with insurance companies which will themselves be taking a substantial share of the risks, such partners would necessarily share in certain property and subrogation rights, and

(3) In some instances it may not be wise to require automatically that the foreign assets become the property of the Export-Import Bank. It may be more expeditious for the Bank to protect itself with regard to these assets in another manner, such as requiring the exporter to take appropriate action in its own name. We believe that the manner in which the Bank protects the interest of the U.S. Government with regard to such assets should be handled in the guarantee agreement rather than by legislation.

Subsection (1) (c) (7) (b) (line 22, p. 14) may be interpreted as excluding cover for services rendered in the United States and transportation costs. If this subsection is to be included, we would suggest that the words beginning on line 22 and ending on line 24, "all services by exporters ordinarily resident in the United States rendered in foreign countries, and shall include", should be deleted and in lieu thereof there should be inserted "but shall not be limited to". The subsection would then begin "(b) The word 'services' shall mean but shall not be limited to * * *".

Subsection (1) (c) (7) (c) (line 7, p. 15) : This subsection defines "political risk" and is illustrative of the problems raised by legislative definitions. As now written we believe the definition is both too restrictive and too broad. For example, we think civil commotion or strife should be covered as a political risk but they may not involve "action by a foreign government" as required by

the subsection. On the other hand, the failure to obtain dollars because the buyer has failed to comply with his government's exchange regulations or laws should not be covered as a political risk, but we think it would be so covered under this subsection. However, if a subsection of this type is to be included, we suggest that the present one be deleted and the following be put in its place: "(c) The words 'political risk' shall mean the risk of loss caused in whole or part by the occurrence of any event which is not within the control of the exporter or the buyer and which is not included in subsection (d) below and which is not normally insurable with insurers covering other than export credit risks." By way of explanation of the last point, the risk of loss due to such things as fire, earthquake, and floods, we believe, are normally insurable with insurers covering other than export credit risks.

Subsection (c) (7) (d) (line 15, p. 15): This subsection defines "commercial risk." That portion of it which refers to the failure or refusal to accept goods or services should be qualified, we believe, so as not to include cases in which there is a breach of warranty on the part of the exporter. Hence, if this subsection should be included, we suggest that after the word "export" on line 20 there be inserted the words "without cause".

The word "for" on line 22 appears to be a printing error and should be "from".

Subsection (2) (line 1, p. 16): This subsection which extends the life of the Bank to June 30, 1968, is satisfactory to us as indicated in our statement. However, there is a printing error on line 1: "section 306" should read "section S".

Senator ENGLE. Now, as I read your testimony, you think we could get on if the bill, on page 12 at line 11, left out all these directives in here. You think the directives are limiting in nature.

Mr. LINDER. That is correct, sir, for the most part.

Senator ENGLE. Well, the language of that portion of the bill following page 12, line 11, could be written in such a way that they are not in the nature of directives—for instance, I observe repeatedly in your appendix that you say the Bank is not only authorized but required to the fullest extent possible to utilize insurance companies and so forth.

You object to being required to do that?

Mr. LINDER. That is correct, sir.

Senator ENGLE. You wouldn't object to being authorized to do it?

Mr. LINDER. I don't believe so. I think we are authorized and empowered to do many of these things, but I think my appendix makes clear that if the committee prefers to include what follows page 12, line 11, that wherein we would find such statements perfectly acceptable to us—

Senator ENGLE. I notice on page 2 of your appendix you say:

The bank is not only authorized but is required to include in its guarantees applicable to the export of goods and related services, both the dollar cost thereof and also the local costs—

and so forth, and you say:

A legislative mandate in this regard is considered ill advised.

Mr. LINDER. Yes; we do, sir.

Senator ENGLE. Oh, I beg your pardon. I was quoting from the letter to the committee of May 15, 1961. This letter, incidentally, has already been made a part of the record in another place, but I think that for continuity in the record, so we will know what we are talking about, we had better put in this letter; it's rather short.

(The document referred to follows:)

EXPORT-IMPORT BANK OF WASHINGTON,
Washington, D.C., May 15, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
U.S. Senate.

DEAR SENATOR MAGNUSON: Receipt is acknowledged of your letter dated May 8, 1961, enclosing a copy of S. 1729 introduced by Senator Engle which has been referred to your committee for consideration and which, if enacted into law, would be known as the "Foreign Commerce Act of 1961". Your courtesy in affording the Bank an opportunity to give its comments is appreciated.

This Bank is in complete agreement with the policy and purpose as defined in section 2 of the bill under review.

Title IV of the bill captioned "Export Credit Guarantees" amends the Export-Import Bank Act of 1945, as amended (12 U.S.C. 635):

(1) by striking subsection (c) from section 2 and by inserting in lieu thereof a new subsection (c) which, although it authorizes and empowers the Bank in furtherance of its objects and purposes to guarantee, insure and reinsure against risks of loss arising in connection with export transactions, also directs the Bank, in rigid and restrictive terms as to the methods to be employed in the issuance of its guarantees, insurance and reinsurance, as to the descriptions of the risks to be guaranteed, insured or reinsured, and as to the statutory definitions of the terms to be employed; and

(2) extends the terminal date for the exercise by the Bank of its functions from June 30, 1963, to June 30, 1968. (The citation in the bill to "section 306" appears to be in error and it is believed that it should be "section 8").

In connection with this Bank's recently announced export credit insurance program, it is considered desirable that the Bank in addition to its authority to guarantee, be specifically authorized by Congress, to insure and to reinsure against risks of loss arising in connection with export transactions. However, the Bank already possesses and is actively making use of guaranteeing authority broader than that provided in the bill under review and not subject to the above-mentioned restricting directives and definitions. Thus the bill, although intended to assist the Bank, actually, if enacted into law as drafted, would curtail the Bank's ability to be of maximum assistance to exporters.

Among the more specific problems raised by the language of this bill are the following:

1. The Bank is not only authorized but is required, "to the fullest extent possible," to utilize insurance companies, financial institutions and others in the issuance and operation of credit guarantees and credit insurance policies. The Bank is now engaged in contacting and in negotiating with interested insurance companies and other financial institutions in this connection. However, such a legislative mandate will render most difficult the negotiation of fair and equitable contracts between the Bank and said insurance companies and financial institutions. In this connection, a mere authorization is considered greatly to be preferred.

2. The Bank is not only authorized but is required to include in its guarantees applicable to the export of goods and related services, both the dollar costs thereof and also the local costs of the installation, facility, or project whenever the said goods or services are an integral part thereof. The degree of relationship between the foreign currency costs of a project and the export of U.S. items varies widely from case to case and the issuance or refusal to issue a guarantee with respect to the foreign currency costs of a project is a matter properly within the discretionary functions of the Directors of this Bank. A legislative mandate in this regard is considered ill-advised.

3. The Bank is not only authorized but is required to provide that the terms of its political risk insurance shall be on a country basis. Such a requirement prohibits the Bank, in appropriate cases, from exercising any selectivity among products, may require a particular rate for each country and may preclude all cover for certain countries.

4. Subrogation rights are, by operation of law, rendered automatic and inure to the benefit of the U.S. Government. In many cases it may be desirable that the person to whom payment is made be required to maintain his interest, and, in his own name, to assert for the benefit of this Bank, his rights, title, and claims to the underlying currency or other assets with respect to which the

payment has been made. To accomplish this desired aim, the exporter credit guarantee contracts of certain other nations customarily provide that the beneficiary, upon receiving payment, agree, at the option of the insurance agency, to assign and to subrogate to said agency all of its rights and titles, or to assert said rights and titles for the benefit of the insuring agency. It is suggested that the subrogation rights arising from payments by this Bank, should inure to the benefit of this Bank, rather than to the U.S. Government; that this Bank should have flexibility in connection therewith; and that in order to give the Bank maximum flexibility, it is preferable for its subrogation rights to be founded in and be governed by contract rather than statute.

5. Statutory definitions of terms to be employed by the Bank in its guarantee contracts and insurance policies are considered unnecessary and often unworkable. The definition of the word "goods" in the bill under review ignores the principle of U.S. origin. The definition of the word "services" in the bill eliminates services rendered in the United States or in transit and prohibits the inclusion of ocean freight. The definition of the term "political risk" fails to stipulate or to describe the actual risks normally covered by such a policy. The definition of the term "commercial risk" may overlap risks heretofore treated by this Bank, and by the credit agencies of other governments, as political.

Specific and restrictive directives and definitions of the sort mentioned above are believed to be ill-advised since they would interfere with the wide flexibility now possessed by the Bank to adjust its facilities to meet rapidly changing conditions of the world markets.

On February 6, 1961 in his economic address to the Congress, the President of the United States stated as follows:

"4. Export guarantees and financing.—Our Export-Import Bank must play an increasingly important role in our export promotion efforts. Last year the Export-Import Bank announced a widening of the facilities which it offers for extending credit to American exporters. Despite the improvements made, these facilities are not yet adequate, nor are they comparable to those offered by foreign countries, especially those offered to small and medium-sized exporting concerns and those offered for the financing of consumer goods. I am directing the President of the Export-Import Bank, by April 1, to prepare and submit to the Secretary of the Treasury, as Chairman of the National Advisory Council on International Monetary and Financial Problems, a new program under the Export-Import Bank to place our exporters on a basis of full equality with their competitors in other countries. Also, I have asked the Secretary of the Treasury to initiate and submit by the same date a study of methods through which private financial institutions can participate more broadly in providing export credit facilities."

In response to the above-quoted directive by the President, this Bank has formulated and is currently engaged in inaugurating a program designed to offer greater assistance to exporters of U.S. goods, commodities, and services, a program completely consonant with the policies and purposes as enunciated in section 2 of S. 1729. To support the Bank in this effort and further to clarify its statutory authority to embark upon the contemplated program, it is suggested that title IV of S. 1729 so amend the Export-Import Bank Act of 1945 as to authorize the Bank, without restricting procedural directives and definitions, to guarantee, insure, and, through the medium of insurance companies, banks and other financial institutions, to reinsure against risks of loss arising in connection with export transactions.

Section 2(c) of the Export-Import Bank Act of 1945, as amended, authorizes the Bank to provide insurance in a restricted amount against restricted risks of loss.

It is believed that the additional statutory authority requested by the Bank can conveniently be accomplished, first: by striking from the Export-Import Bank Act of 1945, as amended, section 2(c) (1), (2), (3), and (4), and by substituting therefor an authorization to issue guarantees, insurance, and reinsurance against risks of loss arising in connection with export transactions, and second: by striking from section 8 the terminal date "June 30, 1963," and by inserting in lieu thereof the terminal date "June 30, 1968." In the original Export-Import Bank Act of 1945, the date limiting this Bank in the exercise of its functions was "June 30, 1948". By successive amendments, the date "June 30, 1948" was changed first to "June 30, 1953", later to "June 30, 1958" and finally to the present date, "June 30, 1963". In order to give to the Bank continuity of operation, and to enable

the Bank to continue with maximum efficiency to carry out the objects and purposes for which it was created, the additional extension is recommended.

The foregoing recommendations and suggestions correspond to the recommendations and suggestions made by this Bank in its letter dated May 15, 1961, addressed to Senator Willis Robertson, chairman of the Banking and Currency Committee, in connection with the consideration by that committee of S. 1379 (introduced by Senator Sparkman and entitled "National Export Policy Act of 1961").

It is the opinion of the Bank that if title IV of S. 1729 be revised substantially as suggested above in such a manner as to increase, rather than decrease, the flexibility now possessed by the Bank, the bill, as revised, will enable the Bank to offer to exporters of U.S. goods, commodities and services, directly and through the medium of private banking and insurance companies, export credit guarantees and export credit insurance comparable in all respects to the assistance given by the governments of other nations to their exporters.

The Bank feels that comment on the merits of the remaining sections of the proposed legislation should more appropriately come from other agencies of the executive branch of the Government more immediately concerned. Accordingly, no comment is made on titles I, II, III, V, and VI of the proposed legislation other than to state that in our opinion the provisions thereof do not adversely affect the operations of this Bank.

For your consideration, we attach hereto a draft of proposed amendments to the Export-Import Bank Act of 1945, as amended.

Sincerely yours,

HAROLD F. LINDER,
President and Chairman.

TITLE IV—EXPORT CREDIT GUARANTEES

SEC. 401. The Export-Import Bank Act of 1945, as amended (12 U.S.C. 635), is hereby further amended by:

1. Striking therefrom section 2(c) (1), (2), (3), and (4) and inserting in lieu thereof the following:

"(c) (1) The Export-Import Bank of Washington, in furtherance of its objects and purposes under this act, is authorized and empowered to guarantee, insure, and reinsure against risks of loss arising in connection with export transactions.

"(2) The Bank may issue such guarantees, insurance, and reinsurance to exporters, insurance companies, financial institutions, or others, or groups thereof, and where appropriate may employ any of the same to act as its agent in the issuance and operation of such guarantees, insurance, and reinsurance, and the adjustment of claims arising thereunder".

2. Striking from section 8 thereof the date, "June 30, 1963," and inserting in lieu thereof the date, "June 30, 1968".

Senator ENGLE. Now what I am trying to get at is this: The language put in this bill is put in because some people had the idea that the Export-Import Bank was not moving fast enough. That is a constant complaint we have from witnesses who appeared before this committee. They say, the Bank operates fairly well on the big loans, but does not operate well in the small loan area, and that too often it just takes too much time. Now how are you going to meet that problem?

Mr. LINDER. Well, sir, I do not believe that this is a valid criticism on the whole, except to the extent that where we get poor applications, we sometimes take a considerable amount of time, as my statement indicated, in order to see whether we can't get enough supporting data to justify our saying "Yes."

I think the principal difficulty heretofore has been the fact that the small exporters, if you will, have not known enough about the facilities available to them at the Export-Import Bank, and while we have had substantial cooperation with some of the major commercial banks in our program, in which we and the major commercial

banks do do some of this financing jointly, this has not been widely enough known, despite great efforts on the part of the staff and directors of the Bank throughout the country.

Now we believe that if we get, as we confidently hope to get, most of the major insurance companies, and all of their brokers and their agents scattered throughout the country, ready to write this kind of insurance on our behalf, and on behalf of the insurance companies themselves, and if they spend some money and we spend some money, and the Small Business Administration lets it be known, and all of the offices of the Department of Commerce broadcast this information, we will gradually get a general appreciation of what the facilities of the U.S. Government are and what it has to offer in this respect. And if we do this, I think the one valid—I hate to use the word “complaint” because I don’t think it’s fair to use complaint—the one valid gap in our program will have been filled, that is, if we can get this known throughout the country, through the private sector, we will have done all that needs to be done to stimulate exports in those respects in which lack of financing or lack of guarantee has acted as an impediment to exports.

Senator ENGLE. Getting back to this bill, the sections which you do not object to simply say that you are authorized and empowered to guarantee, insure, and to reinsure against risks of loss arising in connection with export transactions. Don’t you have that power now?

Mr. LINDER. I think we do, sir, but there has been some question raised by some people, and not agreed to by our Legal Department, as to whether or not the specific words of the act permit us to issue reinsurance policies as against guaranteeing specific transactions. I myself see no difference between guarantee and insure, but there have been people who have raised this question, and to make this crystal clear in new legislation I think would be desirable.

Senator ENGLE. Now there is one direction here to which you evidently do not object, and that is section 401, subsection (2), as follows:

The Bank shall, to the fullest extent possible, utilize the services of insurance companies, financial institutions, or other private enterprises, or groups thereof in the issuance and operations of such guarantees and for this purpose the Bank may make contracts or agreements for the issuance of such guarantees, insurance and/or reinsurance with insurance companies, financial institutions, or others—and so forth.

Now does that add something to your powers, or does it merely clarify them?

Mr. LINDER. This clarifies them I think, sir.

Senator ENGLE. Then we get down to subsection (3), and for the next four pages of the bill you don’t want that in there at all, is that right?

Mr. LINDER. Well, we have said that we prefer not to have it in, but we have made clear I hope in the appendix that we can accept them with some very slight alterations of some parts of that.

I would be delighted to have any of my associates here speak as to specific bits of the language which we think will help. They have it before them.

Senator ENGLE. I would like to hear what they have to say about it, because we are trying to write a bill, and we want to write a bill

that helps you and doesn't hurt you. Presumably you know more about it than anybody else, but this language was put in because it was felt that the Export-Import Bank wasn't moving fast enough and wasn't exercising the aid that we need in this credit field.

I don't believe the bill should be written so that you have language that limits you. We don't want to put language in which places limitations on the present powers and flexibility of the Bank. On the other hand, it seems to me that Congress can say to you, "We think you ought to move along these lines." Do your associates want to discuss this?

Mr. GLICK. Starting on page 12, line 12, subsection (3), we would suggest that after the word "Bank" if the words "is authorized and empowered to" were inserted, and the word "shall" taken out, that this is the kind of discretionary power we could well work with, and with that kind of change we would recommend no further changes in subsection (3).

Then if we go to subsection (4), line 11, page 13, after the words "to determine," we would request that you add after the words "to determine," "all the terms and conditions of the guarantee program, but not limited to," just to make these definitions open end.

One line 22 of page 13, we would suggest that the words "in all respects" be deleted, because we can't confidently be sure that we could include all the features of the other export credit insurance programs, and in lieu of that we would recommend that after the word "guarantees" on line 22 we add the word "fully." With that we would make no other change in that subsection.

Mr. LINDER. It is also true is it not, Warren, that reverting to lines 13, 14, and 15, we would delete the words "to determine."

Mr. GLICK. That is correct. As a drafting change, we don't have to repeat the words "to determine."

Now on page 14, subsection (6), beginning at line 11—this is a fairly technical one, Senator Engle, and our suggestion is that it would be better if it could be deleted. It has to do with underlying property or assets becoming the property of the U.S. Government, and the problems we find, sir, are these: One is that technically it should become the property of the Export-Import Bank, but in addition to that, since we plan to enter into a partnership arrangement with private commercial insurance companies, they will also have to have some rights in the property, and any subrogation rights.

And we would also like to point out, sir, that sometimes it is not the best thing to do, to automatically have these foreign assets put in the name of the U.S. Government, or an agency of the U.S. Government. It is sometimes better to collect on those assets by letting the exporter take what action is necessary in his own name.

So our recommendation there, sir, is that it be left to the guarantee agreement, these matters of subrogation.

Mr. LINDER. May I point out—

Senator ENGLE. Can we redraft that section to do that, or do you presently have the power to do it?

Mr. GLICK. We have the power to do it, sir.

Mr. LINDER. We would just delete (6).

May I point out again, what you probably already know, Mr. Chairman, namely, that these insurance companies, to the extent that they

take the credit risk, are not taking this with any guarantee on our part. That is to say, they will take it without recourse to us, we hope and expect, and therefore the rights should not be subrogated to the U.S. Government or the Export-Import Bank to the extent that they actually take the risk.

Senator ENGLE. You are speaking now of insurance companies?

Mr. LINDER. Yes, I am, sir.

Senator ENGLE. Well, I would agree with that. If the insurance companies are taking it, there is no use in the Federal Government—

Mr. LINDER. I knew you would, sir.

Senator ENGLE. Now you get down to the matter of definitions.

You are Mr. Rowntree, aren't you?

Mr. GLICK. I am Mr. Glick, sir.

Senator ENGLE. I am sorry.

Now you are down to the matter of definitions. Are there some of those which you think are restrictive?

Mr. GLICK. Yes, sir. For example, in subsection (7) (B), line 22, we would request that after the words "shall mean" that we insert "but shall not be limited to," and it would read, "the word services shall mean but shall not be limited to."

Senator ENGLE. You are where?

Mr. GLICK. On line 22, page 14.

Senator ENGLE. Oh, yes.

Mr. GLICK. Just to make the definition open end.

The problem we saw possibly arising in that subsection, sir, was that transportation costs and perhaps engineering services performed in the United States but for a foreign company—

Mr. LINDER. Excuse me again, Warren.

Mr. GLICK. Yes, sir.

Mr. LINDER. We would prefer to delete "all services by exporters ordinarily resident in the United States rendered in foreign countries, and shall include," and just say, "the word "services" shall mean, but shall not be limited to," and then go on to (A).

Mr. GLICK. That is correct, sir.

Senator ENGLE. Do you have some other suggestions?

Mr. GLICK. Yes, sir.

Then we go on to page 15, line 7, subsection (d), the definition of "political risk." We want to indicate two possible problems with a definition of this type, sir.

On one hand, we think it might prevent us from giving a guarantee in the event of loss which was caused by civil strife or civil commotion, but which did not result from any foreign government action, and we are presently covering such risks in our political risk guarantees.

On the other hand, we think the definition as included here may be too broad because it would seem to include as a risk eligible for coverage a situation where the foreign buyer did not comply with the exchange regulations in his country. For example, in one country you have to submit certain papers regarding your income tax, and we do not think that the political risk or comprehensive risk guarantee should cover this. Therefore, sir, we have suggested that the language beginning on line 9, and ending on line 14, be eliminated. We have suggested other language, and I could read it as we now recommend if that would help.

Senator ENGLE. Why don't you read it into the record, and then when we get to work on the bill we will have it before us.

Mr. GLICK. Subsection (c).

The words "political risk" shall mean the risk of loss caused in whole or part by the occurrence of any event which is not within the control of the exporter or the buyer and which is not included in subsection (d) below and which is not normally insurable with insurers covering other than export credit risks.

We would like to explain what we mean by "which is not normally insurable with other insurers," and we think of such things as earthquakes, floods, fire, epidemics, and to the extent that these matters can be insured on a normal commercial market, we think they should be and should not be covered by the comprehensive guarantee.

Then in subsection (d), beginning on line 15, our suggestions there are small, sir. On line 20 after the words "for export," we would request that there be inserted the words "without cause."

Senator ENGLE. Without what?

Mr. GLICK. Without cause. The force of this being that if the exporter is in breach of his contract or warranty.

Line 22, the word "for" we think should be "from," and that is just a printing error.

And then on page 16, line 1, it should read, "Section 8" rather than "Section 306".

Senator ENGLE. Now, with those changes you think you can live with this bill?

Mr. GLICK. Yes, sir; as a lawyer I think we can.

Senator ENGLE. Senator Robertson, of Virginia, who is the chairman of the Senate Committee on Banking and Currency, has expressed some interest in this legislation, inasmuch as his committee has original jurisdiction of Export-Import Bank legislation.

We often get into a situation where we have many provisions in a bill, and although one provision would put it in a particular committee, other provisions would put it in some other committee, and presumably the Parliamentarian decides the matter on the basis of where the provisions preponderate. That is, if there are more provisions which are in the jurisdiction of this committee than there are in Banking and Currency, the bill comes here. But we have to work with those committees, and we have had a letter or two from Senator Robertson.

Now would it be possible for your staff people, perhaps you, Mr. Glick, or someone else, to sit down with the staff people on Banking and Currency, and with our staff people, and go over this legislation so that the Banking and Currency Committee is apprised of what we are trying to do here? Otherwise we will run head on into this on the floor, and we don't want to do that.

Can you manage that, and I will get in touch with Senator Robertson and ask him to put some of his staff people on it, so his staff and his committee can review these particular sections prior to the time we put this bill in final form. He may even want to hold some hearings on it, on this particular section of the bill.

We are anxious to move this bill, so could you do that?

Mr. LINDER. Yes, Mr. Chairman, I see no reason why we shouldn't be able to do that.

Senator ENGLE. I will ask Mr. Levin to get in touch with you, and get in touch with the staff people on the Banking and Currency Committee, and I will personally contact Senator Robertson so he will be apprised, and he will, I am sure, direct his people to work with us and take whatever action his committee deems to be necessary.

Now there are several other questions I would like to ask.

In the event that you have a disagreement with the insurance companies as to whether or not a risk is commercial or political, who makes the decision? Have you worked that detail out yet?

Mr. LINDER. Tom, would you like to speak to that?

Mr. KILLEFER. Senator Engle, we are at the stage now of negotiations with the insurance companies, represented by seven of the leading companies, where we are talking in terms of major principles only. One of the considerations that bothers the insurance companies most of all is the question you have just asked. We believe this can be answered by very careful definition of political cause and commercial cause.

The problem arises, of course, if a company becomes insolvent during the same period of time when there is civil unrest in the country. Now who is to say whether the basic reason the company failed to pay its bills was because of its insolvency and commercial cause, or whether it was due to the political cause of there being unrest in the country?

This problem has come up in other countries, and they have been able to solve it by careful definition.

We believe when our negotiations come to this point, with the aid of our attorneys, Mr. Glick and others, and attorneys on the other side, that we will be able to outline it clearly and simply so that there won't be a gray area there and we will have no real problem. We think we can avoid that problem.

Senator ENGLE. Have you gotten around to the point yet as to whether there are going to be separate rates for political or commercial risks?

Mr. ROWNTREE. Senator, with respect to the insurance companies taking commercial risks, and the Export-Import Bank taking the political risks, there would be, of course, separate rates, which form that composite, which would have a charge for the risk we take, and the insurance companies would have a charge for the risk that they take, and if you add those together you get the rate that the exporter sees and pays. In other words, the exporter sees the composite rate.

Senator ENGLE. How do you account for what the insurance companies make out of it? I assume they have to have a rate which allows a profit.

Mr. ROWNTREE. Correct, sir; just as we have to have a rate that will cover our losses. This is partly a matter of experience, and it seems to me, Senator, that at the start we in the United States cannot hope to have rates as low as the lowest of those export credit insurers abroad. Some of them have a very large volume built up over many years. It seems to me we will have to start with rates a little higher than that until the volume has come up to the point where the general cost can be spread.

Senator SCHOEPEL. Mr. Chairman.

Senator ENGLE. Senator Schoepfel.

Senator SCHOEPEL. The other foreign countries handle the matter that you spoke to, sir, a moment ago, by establishing a rule between the, you know, difficulties that develop in a country, and insolvency. They covered it by a rule.

Mr. KILLEFER. It's done internally, Senator Schoepfel, because ordinarily in those foreign countries, the insurance is provided by an agency of the government, and in this case, the only reason they have to determine whether it's a political risk loss or credit risk loss, is where the percentage of insurance coverage varies between the two. So they make this determination of which kind it is.

For instance, in Great Britain, the commercial risk coverage is 85 percent, and the political risk coverage in the same case may be 95 percent. So it's the government agency acting on its own that says, well, in your case—to the exporter, to the buyer, the loss was due to political cause, so we will give you 95, or it was due to a credit cause, so we will give you 85.

So we don't have a situation yet precisely similar to ours, of which we really have knowledge on this one point. There is a new case in South Africa where the insurance is offered on the basis that we hope it will be offered here, and we expect to have guidance from them on this point when we get that far in our negotiations.

Mr. LINDER. May I say also, Senator, that it doesn't seem to me that that is a grave problem, if we can work everything else out. It is not easy, but you can always resort to some sort of formula for arbitration if necessary, which ought to be acceptable to the insurance companies, to the Government, and to the exporter, and maybe we will find that if we can't define as accurately as we would like, that we will have a provision in the contract which will enable us so to do. But I would suspect that this will happen in 1 percent of the cases at the very outside. I don't think it's a great problem.

Senator ENGLE. Are you finished?

Senator SCHOEPEL. Yes, sir.

Senator ENGLE. One of the major complaints that we have heard is that our exporters have great difficulty in getting adequate credit information. Our Small Business Committee—which incidentally is also involved in this legislation—had some hearings throughout the country, and I presided at the one in San Francisco. Some business people came in there and said, we want to sell venetian blinds, we will say, to some outfit in Paris. Our problem is to find out what kind of credit risk this fellow is, and we can't get information fast enough so we can respond quickly to his order.

Now what are you doing, or what do you have in mind with reference to getting rapid credit information?

Mr. LINDER. Mr. Chairman, I would say that the first step is for that fellow to go to his own bank, who in turn goes to the big commercial bank which is that bank's correspondent in New York, which does a large amount of foreign business.

If the information isn't available at the National City or Chase, let us say for example, in New York, then you do have such things as a World Credit Directory, if you will, and various credit media

which are not as good, let us say, as Dun & Bradstreet for the United States itself, but is the best that the world now has.

Now beyond that, obviously if it's important enough, the bank can—the exporter can ask his own bank, and his own bank can ask the correspondent bank, to send a cable to their correspondent bank in Paris and get the dope.

But if I were an exporter, I am reasonably sure that within 3 days I could get a credit check, and I know of very little business that is going to fail because you can't get that information within 2 or 3 days.

Now if the exporter isn't ingenious enough to think about going to his bank and having his bank go to the big New York banks, and sending a cable if necessary, well then, it seems to me there is some question as to whether he is equipped to do any export business.

Senator ENGLE. Some fellows just don't have very many contacts overseas.

Let's assume this fellow had an order for venetian blinds and he wanted the order insured through this program. How would you determine or how would the insurance company determine whether you were going to give him a yes-or-no answer pretty fast?

Mr. LINDER. Well, we have files, and we have in our bank now information on thousands of buyers, and we also have all these services and directories to which I referred, and we can always go to the commercial banks abroad when necessary to get this information.

A great deal of this business is done with a guarantor at the other end. This is not only true of American business, but it's just as true of British and French and Dutch and German business, and we have reasonably good commercial bank guarantors at the other end, so a substantial part of that problem is solved, because while the commercial bank at that end may charge a fee for guaranteeing, they presumably don't give this guarantee unless they know the buyer.

Mr. ROWNTREE. May I add to that point?

Mr. LINDER. Please.

Mr. ROWNTREE. It's common amongst the export credit insurers abroad to have a mechanism to get this information, as Mr. Linder says, primarily through the banking system, but also in other ways, and it is assumed that in the United States, if these guarantees are to be issued by an insurance group, they also would set up such a mechanism to tap the credit information available in U.S. banks, and obtainable through correspondent relations throughout the world, so that at least for the majority of cases, which are small, one could get the information promptly. In the larger cases where it requires more data and takes longer to get the information, the exporter himself then would not have to get the information on his buyer. He should have some in order to make his own judgment, but the insurer would have the means to get the information to decide whether he would cover that transaction.

Senator ENGLE. I hope something will be done on that score, because that was one of the major complaints we had, that these fellows just didn't have the facilities for getting a hold of adequate credit information.

Now, who will make the determination as to whether or not a purchaser is a justifiable credit risk? Will the insurance company do that, or the Export-Import Bank?

Mr. LINDER. I think the insurance company will do that when they have originated the business.

Senator ENGLE. My hope is that when we get this program operating, that the Export-Import Bank will handle the broad aspects of the program, and that the details will be left to the commercial insurers.

Is that the way you visualize that?

Mr. LINDER. That is precisely what we have in mind, Mr. Chairman.

Senator ENGLE. Otherwise you will be hip deep in detail down there.

Mr. LINDER. You are quite right, sir.

Mr. KILLEFER. We will be in the wholesale side of the insurance business, Senator Engle, and the insurance companies we hope will be doing the retail end of it.

Senator ENGLE. Well, that is exactly the way we envisioned that that program would work, because otherwise, as I say, you will be like some other agencies we have up here—they have cases all the way back to the horizon, and I wouldn't want to see the Government in that situation if I can help it.

Mr. LINDER. Sir, we have made every effort to avoid it. We have a very small staff, and we don't—we may be increased somewhat, but we certainly don't want to have 10 times the number of people that we presently have in the Bank, and we also believe, as my statement tried to indicate, that if it is at all possible, we want to put in this private sector.

Senator ENGLE. Certainly you wouldn't want to get submerged in the details of these multitudinous insurance transactions; you would leave that to the private insurers and their associates, whether the banks or whoever.

Mr. LINDER. That is correct, sir.

Senator ENGLE. Do you have any further questions?

Senator SCHOEPEL. I have no further questions.

Senator ENGLE. You know about this Scafuro plan which is embodied in H.R. 7102 and H.R. 7103, bills pending in the House, and I assume that sooner or later we may have a direct collision with that program.

Mr. Scafuro appeared before the committee, and I observe your statement says that you do not believe we ought to set up a new and separate Government organization to handle this particular problem.

Mr. LINDER. That is correct, sir.

Senator ENGLE. You think you can handle it yourselves?

Mr. LINDER. We do.

Senator ENGLE. Do you believe it would be sound to pick out a selected group of insurers and constitute them as a Government corporation to do a business of this sort, or do you have any views on that subject at all?

Mr. LINDER. Well, I don't know that it is particularly appropriate for me to comment on that. We have indicated that we believe the Bank is perfectly able to handle this, and I think it follows from that that we don't think that a chosen instrument should be established for this purpose with private and public ownership—when I say ownership, under the Scafuro plan the Treasury will be required to

be a stockholder in his company if he isn't able to raise the money, and I have a whole number of questions about it, but I don't know that I would like to go on record as commenting on Mr. Scafuro's plan.

Senator ENGLE. I told Mr. Scafuro that I had great doubt as to whether or not his plan could get through Congress, which is just about all you need to know about a piece of legislation, and that brings an end to that.

We appreciate your testimony today, Mr. Linder, and in order that we can proceed without difficulty with the Banking and Currency Committee, it will be necessary for us to reach a meeting of the minds with them, and in that respect your cooperation will be very helpful to us, and I will ask Mr. Levin to get in touch with their staff people, as I have previously indicated, and we will try to work out the details of this legislation.

I want to say to you that it is not our purpose to make this legislation more restrictive or to inhibit powers which you already have. What we want to do is make it broader and more flexible, and put more horsepower in it if we can, and I want to thank you and your associates for coming up here this morning.

This will be our last hearing unless further hearings are required in connection with our working out the Export-Import Bank situation with the Banking and Currency Committee.

This committee stands adjourned.

(Thereupon, at 11:07 o'clock a.m., the committee was adjourned.)

(The following communications were subsequently submitted for the record:)

STATEMENT BY UNITED STATES-JAPAN TRADE COUNCIL ON S. 1729

The United States-Japan Trade Council is an organization composed of over 250 American and 100 Japanese firms located in the United States which conduct the overwhelming proportion of trade between the two countries. Our members are actively engaged in both importing and exporting from the United States. They have great interest in measures which have as their purpose the increased flow of goods and services among all the countries of the world, and particularly between the United States and Japan. The bill which this committee is considering, S. 1729, contains many useful provisions which would facilitate and promote the expansion of U.S. exports.

Japan is a major market—and more importantly, a growing market—for U.S. exports. Few people realize that over recent years Japan has been the second best customer for U.S. merchandise, second only to our next-door neighbor, Canada. In 1960, the United States exported \$1,324,762,000 worth of goods to Japan, and imported \$200 million less from that country. The balance of trade between the United States and Japan has, with the exception of 1 year (1959), been heavily in favor of the United States.

The United States is the largest supplier of Japanese import requirements. During recent years, imports from the United States have averaged better than one-third of Japanese imports from all countries.

The present and projected high level of economic growth in Japan promises to create a vastly expanded market for U.S. products. A study done by the Japanese Economic Planning Board reveals that by 1970 we can expect an additional billion dollars a year in exports to Japan, on top of the billion-dollar market which now exists, or a doubling of U.S. exports to Japan by 1970.

Because of its inadequate natural resources, Japan, more than is the case with most other countries, must increase its imports in order to maintain economic growth. Japan's economy is based on the use of raw materials which she does not and cannot produce in adequate quantity, and on extensive use of capital equipment manufactured abroad. Whereas in the 1920's well over half of American exports to Japan were agricultural commodities, the proportion in recent years has been closer to one-third, with fabricated goods, and especially

machinery, rising rapidly in importance. The United States has maintained its share of the Japanese market by keeping in step with the changing nature of Japanese requirements.

The extent and nature of this increase in U.S. exports to Japan is clearly shown by an analysis of the goods which this country has supplied to Japan over the past 5 years. From 1956 to 1960, exports of tobacco and manufacturers have almost quadrupled; rubber and products (mostly synthetic rubber) have almost quadrupled; exports of unmanufactured wood increased fivefold; construction machinery and equipment doubled; metalworking machinery increased ninefold; office accounting and computing machines tripled; tractors, autos, aircraft, and watercraft increased fourfold; and industrial chemicals slightly more than doubled. The attached table shows U.S. exports to Japan, by selected commodities and commodity groups, during the past 5 years.

Given the extremely favorable outlook for continued friendly relations with Japan, the United States should continue to supply a heavy proportion of Japanese imports during the next 10 years. However, the maintenance of our export trade is dependent upon the determination of both countries to continue to pursue the goal of a liberalized trade. We cannot ask other countries to remove their restrictions on U.S. exports while we erect barriers to the entry of their products into our country. Japan has made steady progress toward import liberalization. The Japanese Government has announced a program under which 90 percent of all imports will be free of all restrictions within the next 3 years.

While measures to promote and expand U.S. exports are of extreme importance in developing a healthy world trade, such steps will be of no avail if the United States does not continue to pursue a liberal trade policy.

U.S. exports¹ to Japan, 1956-60 by selected commodity and commodity groups

[Thousands of dollars]

Commodity group	1956	1957	1958	1959	1960
Edible animal products.....	\$8,608	\$9,959	\$5,053	\$3,530	\$6,820
Hides and skins.....	17,674	15,652	15,464	14,584	23,530
Animal oils.....	17,665	19,683	18,977	20,816	26,109
Other inedible animal products.....	970	1,032	849	1,485	4,521
Grains (excluding soybeans).....	96,351	111,933	110,416	82,875	71,311
Other edible vegetable products.....	7,827	8,725	8,220	6,793	11,330
Tobaccos and manufactures.....	5,163	3,434	10,506	11,292	19,764
Rubber and products.....	6,736	9,557	10,718	24,353	26,068
Oilseeds (mainly soybeans).....	53,915	62,993	71,881	95,453	104,803
Other inedible vegetable products.....	2,555	3,447	3,832	7,625	13,178
Raw cotton.....	180,240	217,333	118,089	92,629	217,039
Other textiles and products.....	8,927	15,425	8,205	10,775	9,048
Unmanufactured wood.....	2,410	3,661	5,486	9,197	12,328
Paperpulp.....	12,233	15,389	4,764	9,476	24,278
Other wood and paper products.....	4,210	5,682	4,204	6,589	7,070
Coal.....	32,271	54,100	35,290	40,660	53,404
Petroleum and products.....	37,764	61,653	46,005	56,281	77,868
Other nonmetallic minerals.....	6,490	5,941	6,245	9,190	11,380
Iron ore.....	9,313	10,532	5,044	5,240	8,623
Iron and steel scrap.....	106,635	126,526	20,096	105,071	119,704
Copper scrap and copperbase alloy scrap.....	23,431	32,128	4,777	9,941	43,697
Other metals and products.....	77,259	166,975	26,182	28,410	77,952
Electrical and power generating machinery.....	24,081	27,586	43,046	34,036	29,140
Construction machinery and equipment.....	4,575	9,862	10,107	7,567	9,129
Metalworking machinery.....	6,509	43,572	58,309	34,588	60,857
Industrial machinery.....	26,457	46,618	47,306	39,303	36,816
Office, accounting, and computing machines.....	8,935	11,759	11,329	19,604	27,074
Other machinery.....	5,375	6,742	4,068	4,143	6,221
Tractors, autos, aircraft, watercraft, etc.....	8,049	17,193	20,450	9,889	35,497
Chemical specialties.....	30,743	36,681	33,410	54,148	54,622
Industrial chemicals.....	8,176	10,363	9,927	15,352	17,797
Phosphate rock and potassium chloride.....	14,078	16,070	14,923	16,090	24,548
Other crude and processed chemicals.....	17,406	21,000	22,288	26,954	29,935
Miscellaneous products.....	14,284	17,387	16,020	16,582	23,301
Total ²	887,315	1,226,592	829,489	930,522	1,324,762

¹ Exports exclude reexports and "Special Category" shipments (military items).

² Items may not add to totals because of rounding.

STATEMENT OF ALVIN SHAPIRO, VICE PRESIDENT, AMERICAN MERCHANT MARINE INSTITUTE, INC.

The American Merchant Marine Institute, Inc., is a national trade association composed of the large majority of U.S. steamship companies operating approximately 6,200,000 gross tons of oceangoing passenger, tank, dry cargo, and collier vessels in the foreign and domestic commerce of the United States. Nearly 70 percent of the oceangoing tonnage registered under the U.S. flag is owned and operated by our member companies.

Due to the nature of the business of our members, which is in large part the foreign commerce of the United States, our industry is most favorably impressed with and therefore endorses the policy and purposes of S. 1729. We recognize the need at this time for expanded effort by both Government and industry in developing our international trade and most notably the export segment thereof. This need has never been greater.

Why is this so when the United States is already the world's primary trading nation? Data for 1960 shows that our foreign trade totaled \$36.5 billion and accounted for almost one-third of the world's total. Our gigantic efforts in World War II and during the post-war period gave us this lead. However we cannot hope to stay on top just because we happen to be there now. Today the United Kingdom, in second place, is being pressed by West Germany whose 1960 trade already accounts for 19 percent of the world's total. The United Kingdom, according to our information, fell from first place in spite of the fact that her foreign trade in the post-World War II period tripled. If we are to hold our position we must do more than maintain the markets we now have. New ones must be developed and we must be ever conscious of the necessity of obtaining our share of export trade opportunities as they develop. U.S. international trade is for many reasons perhaps the most vital single endeavor (other than armed strength) upon which our Nation must count for its prosperity and survival. First it should be noted that in the decade of the 1950's our exports averaged approximately 9 percent of our production of movable goods. If this proportion is to be maintained, and it must if our domestic economy is to prosper, new export markets must be developed on a continuing basis and existing ones expanded. I am herein referring to normal commercial trade in which our primary competitors are our present policy allies, who after 15 years of rehabilitation and economic progress after the war, and largely with our assistance, find themselves possessed of plants and equipment and governmental support which frequently takes second place to none in existence.

Now while the figure 9 percent may not ordinarily impress everyone, in the complex of our economy it is a vital proportion of total production. Additionally it must be remembered that the impact of exports throughout our economy is not 9 percent across the board, since it runs to a far higher figure in particular industries and particular geographic locations.

Secondly, we are presently waging a defensive battle which could be assisted by this bill and converted into an offensive battle against Communist economic penetration primarily among the neutral nations. Should this battle be lost the threat to our existence or the resources which will have to be dedicated to maintaining our existence are almost too vast to venture conjecture.

Thirdly, our Government is properly concerned about our continuing balance-of-payments deficit of such proportions as to constitute a serious drain on our gold stock. I think it is fair to say without fear of contradiction that among the most competent authorities on this subject there is overwhelming agreement that our primary weapon to right this imbalance or bring it to reasonable proportions is the expansion of our exports of both visibles and invisibles.

Finally, an essential part of our national strength rests on a continuing need for the best and most economical raw materials to meet the requirements of an expanding industrial machine as we face competition at an accelerated pace. Many raw materials needed by our basic industries have to be imported or our manufacturing processes would be severely curtailed and in some cases halted. Rarely are there substitutes for these imported raw materials. It is essential, in our opinion, to bear this expansion of our trade and patterns in mind. It seems to us that S. 1729 promotes these considerations.

While titles I-IV seem to us to be appropriate and reasonable approaches to the achievement of the intended policy and purposes of the bill, we hasten to call attention to a serious, and we hope only inadvertent, omission of an adequate recognition of the commercial role of American-flag vessels in our international trade.

Our industrial expansion during and immediately after World War II projected us into an unquestioned status of total world leadership. We hasten to add, however, that one key to our trade expansion during this period, which is all too often overlooked, has been our merchant fleet. We were able to meet our global commitments to our friends abroad in peace and war due to the existence of our merchant fleet. Recorded history should have taught us that once a great nation neglects its merchant fleet and relies on the services of other nations to carry its commerce, there commences a diminution of trading power. The success of the program outlined by S. 1729 will depend, in part at least, on the availability of a modern and competitive U.S.-flag merchant fleet serving the ports of the world.

Thus we feel that section 101(9)(C) should cover stimulating the purchase of American products and also American "services," including, of course, that of U.S.-flag vessels.

Again, in section 201(a)(5) there should be expressed the necessity for the assisting of small business in developing and expanding exports of goods "and services."

Finally, in connection with title IV:

(a) Section 401(1) should be clarified to clearly establish that "export transactions" include all aspects of such transactions "including services," and

(b) Section 401(7)(b) in defining "services" includes many items properly in this category but leaves a most serious void by overlooking ocean transportation which is performed neither "in" the United States nor "in" foreign countries. Since the use of the word "services" appears so frequently in this title, it would appear that clarifying the definition to close this void would be the simplest process by which such an essential inclusion could be made.

Surely to think of exports solely as tangibles leaving our ports rather than as merchandise delivered abroad is, we believe, an extremely limited concept of modern international trading. Essentially, it overlooks the vital impact of the American merchant marine on our entire economy.

We respectfully suggest such modification in the firm belief that the important role of U.S.-flag shipping as an integral part of any foreign trade expansion program will be one of the services promoted and stressed by this legislation.

STATEMENT OF CELANESE CORP. OF AMERICA, BY LAWRENCE S. APSEY

My name is Lawrence S. Apsey and I am general attorney for Celanese Corp. of America which has executive offices at 180 Madison Avenue, New York, N.Y. (to be moved as of July 5, to 522 Fifth Avenue). This statement is filed in response to the invitation of the chairman of the above committee in connection with the hearings being held on S. 1729. We request that this statement be inserted in the hearing record.

Celanese Corp. of America is engaged in the manufacture and sale in this country and abroad of fibers, chemicals, and plastics. We and 1 domestic fully owned subsidiary have 20 plants and nearly 13,000 employees in 12 different States in this country. Net sales in 1960 were \$264 million, of which \$28 million, or a little over 10 percent, represented export sales by our affiliates. This gives us a substantial stake in export markets. Our export subsidiaries have developed new markets in more than 58 countries through an aggressive sales policy, coupled with the offering of substantial technical assistance to their customers. Our export sales have an important effect in enabling us to maintain a high level of employment in this country. It is a well-known advantage of export trade that when the domestic markets are saturated, foreign sales often enable domestic plants to keep their volume of production high enough to remain profitable and avoid layoffs.

We shall confine our comments to title IV of S. 1729, dealing with export credit guaranties. In our statement filed with the committee last year in connection with the foreign commerce study (printed at p. 247 of the hearings on this subject dated April 28 and 29, 1960), we summarized our recommendations as follows:

1. Permit the granting of short and medium term credit guarantees up to 360 days, insuring against insolvency of the buyer, protracted default and political risks, including prolonged exchange transfer delay, war, interruption or diversion of voyage, imposition of unforeseen licensing, and other causes of credit loss beyond the control of exporters or importers.

2. The coverage of the policy should be at least as extensive as that of the British Export Credits Guarantee Department, which is up to 85 percent for insolvency, protracted default, etc., and to 95 percent for exchange transfer and other political causes.

3. Policies should be available which give the shipper a reasonable selection as to the countries in which he wishes to be insured. A requirement for global coverage when such insurance is not needed by the shipper takes away much of the competitive assistance which the insurance is designed to give.

4. The premium should, if possible, be kept at least as low as the premium rate prevailing under the credit insurance systems of the principal competing countries. We believe the rates should match those of the Export Credits Guarantee Department of the United Kingdom, which average less than 1 percent of the invoice value.

5. There should be a flexible system which will permit the insurer to work directly with the U.S. exporter, requiring him to furnish a sound basis for judgment on granting of credit to his customers. Subject to this requirement, the granting of insurance should be made simple and speedy.

We still believe that adherence to the above principles is essential to create an effective export credit guarantee system. Because of their importance we should like to see more of them specifically incorporated in the bill. In its present form, the bill leaves decision on these matters largely to the discretion of the Export-Import Bank, which in the past has been much too conservative to offer a really competitive export credit guarantee system. We believe the above principles are minimum requirements, in order to make the export credit guarantee system of this country truly competitive with those of other countries, such as Great Britain and the Federal Republic of Germany. Unless the system is competitive, the efforts of the Export-Import Bank under the proposed bill will have been in vain.

No doubt S. 1729 gives the Bank authority to set up a truly competitive system and the proviso to paragraph (4) of subsection 2(c) of section 401 of the bill requires the Bank to endeavor to make the guarantees competitive with those offered by foreign governments. This proviso, however, also requires the Bank to endeavor "to make the program as self-supporting as may be possible." The conflict between these two requirements may result in the Bank not coming up with a competitive program. This would nullify the purpose of the bill. Another extremely important feature omitted from the bill is the requirement that the Bank offer guarantees to exporters on less than the whole of their export business, provided the accounts are of such a nature as not to involve abnormal risk. To take care of these two points, we recommend changing the first five lines of the proviso (p. 13, lines 20-24) to read as follows: "*Provided*, That the Bank shall require the guaranties to be made available for specific accounts or groups of accounts of each exporter if such accounts do not involve abnormal risks; *And further provided*, That the Bank shall endeavor to make the guaranties competitive in all respects with the credit guaranties or insurance policies offered by foreign governments or their agencies, and to make the program as self-supporting as may be possible without rendering such guaranties not fully competitive with such facilities offered by foreign governments or their agencies."

We believe that the above specific amendments would do much to strengthen the bill, but we also believe that it should be further amended to incorporate the following requirements:

1. That the Bank be given specific permission to grant short and medium term credit guarantees up to 360 days.

2. That the coverage of the guarantees should be at least 85 percent of the total contract price for commercial risks and 95 percent for political risks.

If amended as above indicated, we would strongly favor the enactment of title IV to S. 1729. If the changes are not made, we would still be in favor of the bill as a step in the right direction, although its value in the long run would depend entirely on the measures adopted by the Bank to carry out its provisions.

STATEMENT IN SUPPORT OF S. 1729 BY W. R. JEEVES, VICE PRESIDENT,
PARKE, DAVIS & CO.

Longstanding and unalterable commitments prevent me from appearing personally on June 22 in Washington and thus it is with sincere regret that I am compelled respectfully to submit my testimony in writing on behalf of bill

S. 1729, the passage of which I consider most advantageous to the future interests of the United States. The purposes of this measure merit the full support of every thoughtful citizen and the intelligent yet practical means it employs to achieve its objectives, deserve the unqualified endorsement of close observers who are increasingly concerned over the place of U.S. international commerce on the world economic scene, resulting from recent developments.

As vice president of Parke, Davis & Co. (Detroit), a leading manufacturer of ethical pharmaceuticals, and director of foreign operations for that company, with manufacturing, sales and distribution facilities in all countries of the free world, I have had the advantage of forming my conclusions by looking at this country from the outside, from various vantage points around the globe.

It has always been a source of pride and satisfaction to note the impressive expansion of U.S. foreign commerce since the last war but most gratifying has been to observe the almost complete reevaluation of the role which foreign trade plays in the U.S. economy, involving a more realistic appreciation by both Government and public of its importance to the country's welfare.

While much of this development is traceable to America's fortunate economic position after World War II as the principal source of industrial capacity in the civilized world, a good part of this evolution might be credited to those dedicated individuals in Government, business, banking, and international organizations who saw opportunities for expansion through the application of our system of private enterprise abroad but who moreover, felt intuitively that the more people trade with each other, the more likely they are to learn to respect and even like each other. For many, the late Mr. Watson's slogan "world peace through world trade" is more than idle words but expresses a deep-felt conviction.

At the same time, despite the progress that has been made in recent years and the position that this country occupies in world trade today, there appears little ground for complacency and much to cause concern and disquiet when the present and future prospects of the U.S. international trade are viewed objectively from abroad and when appraised from grassroot viewpoints located around the world.

When observed from the various marketplaces of the world, it can be quite clearly seen how an expanding international trade is vital to the future welfare and the best interests of the United States.

It is at once apparent that a sound and flourishing domestic economy at home is essential for a country burdened with the heavy responsibility of leadership of the free world and that without an internal economy with growth and vitality, its capacity for leadership will be difficult.

It is equally apparent that prosperity and employment in the United States itself must depend on a vigorous and ever-increasing foreign commerce. No longer is foreign trade the mere shipment abroad of surplus production but it is the yeast which provides the ferment which keeps the domestic economy fluid, growing, and expanding.

Little need existed for trade promotion during the war and immediate post-war years, with military support, rehabilitation, and reconstruction foremost on everyone's mind. For the past 8 or 9 years however, the world has resumed its competitive posture of prewar years with some nations moving ahead and others falling behind in the race for economic survival. It is an unfortunate fact that in this respect the United States has not done as well as its friends in Europe have. In relation to the larger industrial countries of the world today, the present ratio of U.S. exports compared with the country's gross national product is far too small, as you gentlemen are well aware. It suffers by comparison with the export percentages of our friendly competitors and, in fact, is not what that ratio should be for the world's greatest economic power.

Above all, perhaps the thing that can be most keenly appreciated when viewing this country from abroad is the fact that the so-called cold war is actually an economic war, that Mr. Khrushchev was not fooling when he declared his economic offensive and boasted that he would beat us with it. It would seem sometimes that we are fighting it by political means whereas, with our present overwhelming superiority in technology, with our industrial know-how, plus the drive and initiative that goes with the private enterprise system, one would imagine that the economic field would surely be our own choice, as the one in which we are best equipped to accept his challenge and beat him soundly in it.

In my opinion the provisions of bill S. 1729 can supply some of the remedies needed to reverse the relative decline in our world position and provide a certain vigor to the conduct of our affairs abroad which can contribute to the over-

all acceleration of our growth rate. Our friendly competitors in Europe and Asia, long schooled in the absolute essentiality to expand their overseas operations, have made good use of the last 8 years in planting their commercial flag over the face of the globe. Their trade commissioners brought buyer and seller together; publicized opportunities for import and export as well as overseas investment; acted as drummers to invite foreign capital onto their own shores, obtained ever-increasing quotas for their countries' goods within the bilateral trade agreements; fought for tariff concessions to eliminate trade restrictions against their product; and established beachheads for commodities and manufactures in which their countries have never been considered expert.

While this was going on, U.S. commercial representatives had to content themselves with writing about the economic conditions of the countries where we have representation, on a time-available basis and with sometimes inadequate contact with business conditions either in their own country or in the country to which they were posted.

It is obvious that the long-term structural imbalance of the U.S. balance of payments, as well as the internal and external posture of the United States, demands something better than this, apart from the obvious need to meet the exigencies of the cold war by means of an aggressive economic offensive of our own.

What is needed to accomplish this is a strong infusion of the basic American art of old-fashioned salesmanship, to apply abroad the "hard sell" philosophy of the trade commissioner system established by Herbert Hoover in his capacity as Secretary of Commerce. That foreign commerce corps achieved some notable success in exploiting opportunities for American traders and its efforts on behalf of U.S. business established America as one of the foremost trading nations in the world.

Some 22 years have passed since the last U.S. trade commissioner was withdrawn from his post, his functions being dispersed among other officials of the embassies, few of whom seem to have expansion of trade as their primary mission. Therefore, this bill, as drafted, will be admirable if it succeeds in creating a corps around the world of well-trained, single-minded young men whose sole purpose is to foster this country's exports and economic interests, reporting directly to the Department of Commerce.

Well-experienced independent trade commissioners, with a background of and sympathy for the business viewpoint here and an intimate knowledge of the conditions of the country in which they are posted, could well serve as the prime vehicle for a 25-percent expansion of our overseas trading activities, which is all that is needed in effect, to correct our current imbalance of payments.

Congress willing, the U.S. Department of Commerce and its foreign commerce corps can play a key role in helping to preserve a sound economy at home by working to promote an expanding U.S. economic activity worldwide. Such a national sales force, together with an internationally minded, competitive U.S. industry abroad, plus the drive and initiative that is the modern American system of private enterprise, cannot do other than serve the country well.

STATEMENT OF CARL C. LANDEGGER, EXECUTIVE VICE PRESIDENT, BLACK-CLAWSON CO., NEW YORK, N.Y., ON S. 1729

The Black-Clawson Co., Inc., is one of the major manufacturers in the United States of pulp and paper machinery. We manufacture a full line of equipment for the pulp and paper industry including stock preparation equipment, pulping equipment, paper machines, and converting equipment. A substantial proportion of our equipment is sold overseas. We also have licensing arrangements with numerous concerns in various foreign countries. Indeed, we take pride in the fact that we have for many years been oriented toward international business and devote a substantial portion of our efforts to the making of sales overseas. We also have an affiliated company, Parson & Whittemore, Inc., which engages in related activities and especially in the making of surveys of investment possibilities in the pulp and paper fields overseas. Parsons & Whittemore also performs engineering services for foreign customers and has built numerous pulp and paper mills for foreign customers on a turnkey basis. By a turnkey basis we mean the contracting by Parsons & Whittemore with a foreign corporation for the engineering, erection, supply of equipment, supervision of startup and, in some cases, long-term management for complete installations

overseas. Parsons & Whittemore frequently invests its own funds in the new enterprises.

Both Black-Clawson and Parsons & Whittemore, Inc., support in principle the enactment of S. 1729, a bill to promote the foreign commerce of the United States and for related purposes. While we do not comment on many of the technical provisions of this legislation, we do, however, emphatically assert our support of the expansion of information services in connection with the export market and of the development and initiation of a U.S. Government-sponsored export credit guarantee system.

We, as exporters, have had continuing and constant contact with U.S. Government representatives abroad and have, by and large, found them to be extremely cooperative. We do, however, believe that at times we have been at a distinct disadvantage with our foreign competitors, since in many instances the U.S. Government representatives in foreign posts have not been intimately acquainted with the procedures and problems of the U.S. exporter and of U.S. business. This has not been uniformly true, but we have been faced with this situation on occasion. We believe, therefore, that the creation of a special group to represent U.S. commercial interests abroad will facilitate the expansion of U.S. export business and will help solve many problems which arise. It is axiomatic that when a group has the furtherance of U.S. business as its sole purpose it will be more effective than where such a group has this purpose only as a part-time activity or as a short-term assignment.

Turning now to the problem of exporter credit guarantees, we at Parsons & Whittemore and at Black-Clawson feel an urgent need for some form of exporter credit insurance. As the committee is aware, many European countries have such exporter credit systems. These exporter credit guarantee systems are an invaluable adjunct which permits foreign producers to enter into many situations where we American firms cannot go simply because the banking facilities are not available. If some form of credit insurance is available in exporter transactions, the banks are much more willing to extend credit for that particular transaction. The result, if an exporter guarantee system is established, is that we as American corporations do more business and the American economy benefits because more dollars are earned, more jobs are created, and the flow of gold is decreased.

The ICA investment guarantee program fills a part of the need with its guarantees of the political risks. But these guarantees, as the committee is well aware, are limited to the countries where the program has been instituted. There is no coverage where the foreign government has not entered into an ironclad agreement with the United States. This last is true in many areas of the world where we would like to sell. In some of these areas we, quite frankly, would not be willing to enter without the assurance of a political risk guarantee. Unfortunately, many of these countries where the program is not operating are the very ones where it is U.S. governmental policy to speed economic development to the maximum degree. The net result is that the Government must do the job which private enterprise would otherwise do.

An even more glaring deficiency in exporter coverage provided by the U.S. Government is the lack of any effective coverage of the credit risks. The Development Loan Fund has authority to issue guarantees covering the credit risk, but unfortunately no significant utilization appears to have been made of the authority. The new foreign aid legislation provides for the insurance of guarantees covering credit risks up to \$100 million. There is no assurance that this authority will ever be used and, even more importantly, when it is used it will be used primarily to carry out special foreign policy objectives rather than being used for the more general but equally important objective of stimulating foreign exports. Therefore, there is a considerable gap in coverage.

The argument will be made by many that the U.S. Government should not be in the business of guaranteeing or assuming the credit risks of private business. The experience of the European nations in the successful administration of their exporter credit guarantee systems demonstrates that such a program of exporter guarantees does, in fact, encourage exports and can be administered on a sound and businesslike basis. The very fact that the program proposed by S. 1729 will be administered in part by private banks and by private insurance companies will insure that sound business judgment is brought to bear and that sound business practice will be utilized. The use of private entities in assisting the administration of the program will, in our opinion, improve the program and will provide some of the necessary safeguards.

We cannot comment in detail on the exporter credit guarantee program, since it is in large measure left to the discretion of the Export-Import Bank as to how it is to be administered. The success of the program will, of necessity, depend on the means and methods of its implementation.

In conclusion, Black-Clawson and Parsons & Whittemore heartily endorse S. 1729 and hope that it will be speedily enacted.

STATEMENT OF PACIFIC AMERICAN STEAMSHIP ASSOCIATION

As an integral part of U.S. foreign trade the operators of American-flag merchant ships are interested in ways and means to expand markets for U.S. products abroad. Our organization, comprised of the major American-flag ship lines on the west coast, supports the principles of the proposed Foreign Commerce Act of 1961, S. 1729. This bill would provide the following means for expanding U.S. exports:

(a) It would expand the scope of activities of the Department of Commerce in promoting U.S. exports through the medium of trade fairs, publication and information media, market surveys, trade missions, trade information centers, etc.

(b) It would expand the activities of the Small Business Administration and create a better liaison between that body and the Department of Commerce in the matter of small business participation in foreign trade.

(c) It would establish a Foreign Commerce Corps in the Department of Commerce for assignment to embassies in important trading centers.

(d) It would expand the export credit guarantee program of the Export-Import Bank.

(e) It would make available foreign currencies held abroad by the U.S. Government for financing projects pursuant to the Foreign Commerce Act.

All of these devices for implementing the policy statement and the purposes of this act appear to be good ones. We do, however, have certain reservations concerning the inclusion of title IV—the section dealing with export credit guarantee—in this particular legislation. As we interpret this legislation, it is to provide better commercial representation and better display of American products both in trade fairs and in publications and so forth. The export credit guarantee feature, however, while certainly a desirable step toward improving competitive abilities of American exporters abroad, appears to go beyond the scope of the strictly promotional aspects of the other sections of the Foreign Commerce Act of 1961. This section of S. 1729 should be the subject of separate legislation since it appears to raise complex questions of fiscal policy which because of their complexity raise controversial issues.

The balance of the bill, however, provides much needed enhancement of the facility of our embassies, the Department of Commerce, and other Government agencies to promote American exports abroad.

NEW YORK, N.Y., *June 21, 1961.*

Hon. WARREN G. MAGNUSON,
*New Senate Office Building,
Washington, D.C.:*

Convinced that expansion of exports is critically needed for U.S. business as a whole and specifically on behalf of American Machine & Foundry Co., I wish to express our agreement with an appreciation of motivation of S. 1729. With 19 manufacturing plants in 17 States, our export markets are particularly important to us. Extension and reorganization of export facilities in Department of Commerce, including establishment of professional career service to promote foreign commerce, is excellent. Improvement of export credit insurance facilities will contribute to expansion of exports, higher level of U.S. employment, and sounder national economy. However, with regard to credit risk insurance we do not feel title IV, section 401, goes far enough and should be modified consistent with H.R. 7102 and H.R. 7103 which provides for establishment of federally chartered American Export Credits Guaranty Corporation privately financed and administered and distinct from export banking and financing. This plan would greatly improve our present disadvantageous position vis-a-vis foreign competitors. Thus, we respectfully urge modification of S. 1729 in this manner.

F. X. WHITE, *President.*

COMMITTEE FOR A NATIONAL TRADE POLICY, INC.,
Washington, D.C., July 6, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Senate Commerce Committee,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: We are pleased with the opportunity afforded by your letter of June 14, 1961, to present the views of this committee on S. 1729, the Foreign Commerce Act of 1961.

We applaud the explicit recognition the bill gives in its statement of policy to the importance of expanding foreign trade to the peace and economic well-being of the peoples of the world and to the economic leadership of the United States among free nations.

The major terms of the bill appear to be an important step forward in the development of a well-balanced trade policy in the national interest. This is the standard to which the Committee for a National Trade Policy is dedicated. Just as we have worked long and diligently for an import policy designed to lower our own tariffs and abjure quantitative restrictions, in exchange for fully reciprocal policies abroad; thus, we favor a sustained, vigorous policy of export promotion by private enterprise, with such Government assistance as is appropriate in a free enterprise economy and necessary to keep the U.S. export promotion effort fully equal to those of our major competitors.

On the whole, we believe that S. 1729 advances that objective. There are, however, a few features of the bill that invite reconsideration before the committee and the Congress come to a decision on legislation of this kind:

TITLE III

We favor strongly the creation of a specialized Foreign Commerce Corps. While S. 1729 would place this corps under the administration of Commerce, we feel that for a number of reasons administration by the Department of State should be fully considered. In either case, however, many changes will be necessary in departmental outlook and administration to make such a corps effective. For example, if it is placed under the Foreign Service (i.e., under the State Department), direct lines of corps communication with the Department of Commerce should be established, and tours of duty in field offices of the Department of Commerce should be provided. Most of the other provisions of title III should also remain intact. On the other hand, if the corps is established in the Department of Commerce, as called for by the bill, steps should be taken to assure—

(a) the participation in the corps' activities by all appropriate divisions of the Department—especially the commodity divisions—and the orientation of all those divisions to the total needs of trade expansion;

(b) the recruitment of corps officers who are committed to the principles and effectiveness of U.S. foreign trade policy—both import policy and export policy—as well as to our total foreign policy.

We also feel that the advancement of trade policy in a foreign service post is basically the responsibility of the chief of mission, who has the responsibility for our total posture in that country. Members of the corps must therefore be persons not only of high technical caliber, but officers capable of (a) doing an effective trade promotion job, (b) working closely with the Department of Commerce, and (c) working effectively as members of the mission team under the direct authority of the Ambassador. The performance of corps personnel should be judged against all these criteria. The selection of corps personnel should meet the standards of the Foreign Service and require the approval of the Department of State.

The bill as written does not provide these assurances, which we strongly feel are essential conditions for the creation of such a career service in the Department of Commerce.

We also feel that, whether the corps is placed in the Department of State or the Department of Commerce, its officers should be encouraged to aspire not only to the ultimate corps rank of commercial minister but even to the rank of Ambassador in the regular diplomatic service.

In sum we believe that export promotion and international trade operations are a vital part of our foreign policy. As such this program should be either in or administered in the closest cooperation with the executive department responsible for that policy—the Department of State.

TITLE IV

We endorse the objectives of title IV, and we feel that, while its provisions add little if anything to the authority the Bank already has under its charter, it is proper for the Congress explicitly to indicate what it wants the Export-Import Bank to do with the authority it has in this policy area. We recommend, however, that any harmful implications of the term, "the Bank shall," in section 401(3), in terms of the discretion of the Bank in such cases, be explored with the Bank. We also recommend that the meaning of section 401(3) (*a* and *b*)—important provisions concerning which questions of interpretation have arisen—be made as clear as possible.

We also suggest that the President be required to submit an annual report to the Congress on the operation of the program, recommending such modifications in the statute as he thinks necessary to enhance its effectiveness.

Sincerely yours,

CHARLES P. TAFT, *General Counsel.*

MACHINERY & ALLIED PRODUCTS INSTITUTE,
Washington, D.C., July 12, 1961.

HON. WARREN MAGNUSON,
Chairman, Interstate and Foreign Commerce Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: We appreciate this opportunity of presenting the views of the Machinery and Allied Products Institute and its affiliate, the Council for Technological Advancement, on S. 1729, a bill to promote the foreign commerce of the United States.

This legislative proposal deals with an area of great interest to the capital goods and allied product industries represented by the institute. It seems relevant to the committee's consideration of a proposal to promote U.S. foreign commerce to point out that U.S. exports of these industries amounted to \$4.5 billion in 1960 and have for many years represented the largest single category of goods shipped from the United States. In addition to this very large volume of exports, many capital goods and allied product manufacturers have long had substantial investments abroad, and these investments have increased considerably in recent years. Moreover, still other such companies—in response to increasingly intense competition for world markets—have recently undertaken foreign manufacturing operations or are currently contemplating such moves.

The experience of the capital goods industries bears out completely the observations made by Senator Engle in introducing S. 1729. He points out that the U.S. share of world markets is declining. Our own analysis of Government data on this subject shows that this country's competitive position in world machinery markets has worsened significantly in recent years. The U.S. share in world machinery markets as compared with its seven major competitor countries has declined from 42.9 percent in 1953 to 33.9 percent in the first half of 1960. Our share of the market has shown a year-to-year decline throughout this period except for the year 1956.

Before entering into a discussion of the proposals contained in S. 1729, we wish to stress that we have had intimate and continuing contacts with capital goods manufacturers in the foreign field—particularly through the work of our International Operations Council. We are confident, for that reason, that the views expressed herein are generally representative of those held by the majority of industrial equipment manufacturers.

We have already expressed our views on many of the subjects raised in S. 1729 within the past year and one-half. In April 1960, we had the privilege of presenting to this committee a statement of the institute's views respecting measures to expand U.S. exports. In December of 1960 we presented to the Senate Select Committee on Small Business a further statement of our views on "small business exports and the world market."¹ Both of these comprehensive statements remain generally valid today. However, considerable time has elapsed since their presentation, and we should like herein to extend and update in the context of current international economic and commercial problems the observations made in those statements.

¹ "Foreign Commerce Study," hearings before the Committee on Interstate and Foreign Commerce, U.S. Senate, on measures to expand U.S. exports, Apr. 28 and 29, 1960, p. 145. "Small Business Exports and the World Market—1960," hearings before the Select Committee on Small Business, U.S. Senate, p. 448.

THE NECESSITY FOR A MORE EFFECTIVE INTERNATIONAL COMMERCIAL POLICY

We should like first of all to express our enthusiastic support of the objectives set out in S. 1729. We are especially pleased to note that the bill proposes the promotion of a more effective international commercial policy through the expansion of services for export promotion and other measures. In our statement to the Senate Select Committee on Small Business, referred to above, we identified certain aspects of our international commercial policy which required, in our judgment, prompt and substantial strengthening. Included were such matters as the need to further inform business about available credit facilities, the need for better foreign marketing data, the necessity for improvement of Government commercial services abroad, and the possibility of creating opportunities for small business to improve its foreign trade position through cooperative arrangements involving the use of the distribution facilities of larger companies. Above all, there must be a recognition that maintenance of a strong international commercial policy is essential for the welfare of the United States.

Although we have no desire to burden this record with a reiteration of recommendations there advanced, we have restated them in brief here only because we believe S. 1729 would provide a basic program leading to the solution of most of these increasingly serious problems. Indeed, we think Senator Engle's proposal—at least in terms of broad intent—directly engages many of the problems frequently brought to our attention by foreign traders in the institute membership. As to certain aspects of the bill, we suggest that further study may be necessary, and we offer some suggestions as to steps which might be taken in addition to those proposed in S. 1729. In general, however, we think the objectives of S. 1729 are wholly praiseworthy and, in view of America's deteriorating position in world markets, deserve prompt consideration and appropriate legislative action.

Foreign commerce corps.—We would like to make reference to proposals to increase the quality of service provided by U.S. commercial attachés abroad. We note in S. 1729 a proposal to organize within the Bureau of Foreign Commerce a career service to be known as the Foreign Commerce Corps of the United States. It is proposed that professional staff members of the corps shall have the designation of "Foreign Commerce officer." It is stated that this transfer of commercial attachés to the jurisdiction of the Department of Commerce from the State Department would lead to the creation of professionals in the commercial field who would serve in a career capacity in that specific area with duty overseas interrupted only by periodic rotation to duty in the Bureau of Foreign Commerce in Washington or assignment in related areas. While we feel that this may be some improvement over the present situation under which commercial attachés who are politically oriented currently serve only for a period of some 2 years in the post, we nonetheless are concerned that the improvement to be expected under such a program may be limited. Further, we think that the main drawback to the present system does not lie so much in the jurisdiction within which the officer serves, but rather in the methods and sources of recruitment and the political orientation of the current commercial officer who is too often completely lacking in interest or familiarity with purely commercial matters.

Our companies' experience under the present arrangement, with some notable exceptions, is that they can learn little from U.S. commercial personnel abroad about the availability of foreign business opportunities which they do not already know, or cannot readily get from other sources. These personnel, in the experience of many companies, act, for the most part, only as clerks, referring them to sources with which they are already familiar.

Changing the commercial service to a full-time career service would not, in our opinion, necessarily raise significantly the caliber of the individual serving in the position. It would, of course, assure that he was not politically oriented. On the other hand, it appears that under the proposal to make the commercial service a career service there is a distinct limit as regards how far a person could ultimately rise. He would be serving in only one part of the U.S. Commerce Department and he could not presumably hope to rise above the top echelons within that particular branch. Further, it seems quite likely that the Government would stand to lose a number of its highly qualified individuals to more remunerative positions in industry.

It is our feeling that some new approaches should be considered in order to assure recruitment of personnel with the necessary imagination, drive, and in-

telligence. One approach that might be quite successful would be to recruit young men from the business community who have the necessary talents and who are considered to be the "bright young men" in their respective companies—those who are expected to rise to high company levels. The position of commercial attaché overseas could be an excellent training ground for ambitious young people who have the initiative to use it to good advantage. After all, any job is what one makes of it and a position of this type could offer a unique opportunity for young men from the business community who intend to direct their primary attention to foreign operations.

One could expect, furthermore, that the program would be of double benefit to the business community. It would not only assure good service to the business community, but it would also provide excellent training for future top executives. Businesses which lent men to such a program would be assured that upon their return they would have obtained a broad experience in the foreign field which, in many instances, could not be gained within a comparable period of time within the company.

With respect to details of the program, such people might work overseas for a 3-year period before returning to their companies. The situation could then be developed so that there would always be in any post a person with at least 2 years experience. Such persons would have an important stake in learning as much as possible about U.S. business interests and problems overseas and techniques and procedures for dealing with them. Their hope of subsequent advancement within their respective companies should provide adequate motivation for developing such knowledge.

A new program of this type would, of course, call for a substantial educational effort within the business community in order to assure that business was fully apprised of the advantages accruing from such a system. It would have to be stressed that the business community will benefit from such a program only in proportion to what it contributes.

We offer this suggestion, because we feel that substantial improvement in our commercial services abroad will require radical changes not only organizationally, but also in the type of background, training, and outlook of individuals drawn into such a program.

We would be happy to explore this suggestion as well as alternative possibilities both with the committee's staff and with appropriate representatives of our own member companies if the committee feels such action would be helpful.

THE NEED FOR COMPETITIVE SHIPPING FACILITIES

We would like also to make reference to another matter we feel should be brought to the attention of the committee, since it has a bearing on the competitiveness in world markets of U.S. capital goods. This concerns the requirement that U.S. suppliers ship in U.S. bottoms where their goods are financed by U.S. Government agencies. We have been informed by some companies that the requirement makes the cost of shipping higher for the U.S. exporter than would be the case were foreign vessels used.

Obviously, this is a most complicated problem and involves considerations of national security and national prestige which require the maintenance afloat of an American commercial fleet. Moreover, the cost problems of American shipping lines are too well known to require further elaboration here. We think it desirable, nonetheless, that the committee be apprised of all the various problems confronting the U.S. supplier. This is certainly one aspect of the export problem.

We feel that the effects of this requirement have not been sufficiently explored and recommend that the matter be given further study with a view to determining the impact on the parties concerned including the carriers as well as the exporters.

INVESTMENT ABROAD INCREASES U.S. EXPORTS

Before turning to the question of the adequacy of export credit facilities, we think it important to emphasize the close relationship between U.S. investments abroad and exports from this country.

It has long been our conviction that there are widespread misconceptions about the role of U.S. private investment overseas and that these misconceptions have played at least some part in administration proposals for a revision of the taxation of foreign subsidiary income. Because of our concern over these misconceptions and their possible impact on public policy decisions, the institute

published earlier this year the pamphlet, "Private Investment Abroad," which attempts on the basis of our member companies' experience to outline the purpose, character, and current results of American private investment abroad. A copy of that pamphlet is attached. Our views were amplified further in testimony on June 7 during public hearings by the House Ways and Means Committee.

In addition, we should point out that the Under Secretary of Commerce addressed a letter to Chairman Mills of the House Ways and Means Committee reporting the results of a survey requested by the chairman. The data in the report provide further support for many of the views as expressed in our pamphlet and in our statement of June 7. In view of its importance, we also attach a copy of that letter.

As our pamphlet and supporting documentation make clear, U.S. companies often are forced to go abroad to maintain existing shares of world markets or to recapture market shares already lost to foreign competition. How does this movement of private capital affect the economy of the United States? Overall, such investment provides a positive stimulus to U.S. exports by creating a permanent interest in foreign markets, by giving products local identification, by establishing foreign distribution channels, by creating a demand for U.S.-manufactured components, and by generating an immediate demand for U.S. production equipment required in connection with the investment. By substantially increasing total U.S. exports such investments have provided a net increase in domestic employment.

We cannot emphasize too strongly our conviction that efforts to discourage such investment—as, for example, by removing tax deferral on foreign subsidiary earnings—would have a seriously adverse effect both on our total exports and our domestic employment picture.

THE ADEQUACY OF U.S. EXPORT CREDIT FACILITIES

The adequacy of U.S. export credit facilities is a subject of the very greatest importance to capital goods and allied product manufacturers. Because of the nature of the products involved, machinery and equipment are customarily sold both at home and abroad on extended credit terms on the basis that the increased production resulting from the installation of the equipment will in large part pay for its cost. Moreover, capital requirements necessary to finance capital goods are usually of such magnitude as to make proposed credit terms an essential factor in sales negotiations. Certain of the problems encountered by capital goods manufacturers in this area as well as some suggestions for corrective action are set out below.

Advance commitments.—Although the Eximbank on March 24, 1961, announced an expanded program of export financing, including the granting of advance commitments where appropriate, the fact is that no U.S. Government financing agency will as a matter of general policy offer advance commitments to U.S. prime contractors and suppliers of capital equipment in connection with the financing of foreign projects to which U.S. companies may be suppliers. To be sure, the Eximbank will authorize advance commitments in many cases in connection with individual exporter credits. However, the inability to obtain an advance financing commitment in connection with major foreign projects results in many instances in the automatic loss of business by U.S. suppliers to European or other foreign manufacturers who can and do provide necessary financing commitments with proposals or quotations.

This failure to provide advance commitments has come to our attention not only as a result of exporters' experience in dealing with Eximbank but also as a result of specific experiences with the Development Loan Fund. We discussed this gap in export financing facilities—and its harmful effects on the position of the American capital goods exporter—with officials of the Development Loan Fund a short time ago and prepared subsequently a memorandum on this subject for the use of DLF officials. A copy of this memorandum is attached. According to recent information from the Fund, no action has been taken in this regard.

In summary, we should say that the inability generally to obtain advance commitments is one of the most serious deficiencies in our kit of export financing tools.

The necessity for greater use of private capital in export financing.—We are especially interested in title IV of S. 1729, "Export Credit Guarantees," which

is designed presumably to attract greater sums of private capital into the export financing field. We have long had the conviction that steps in this direction must be taken if American exporters are to achieve parity with their foreign competitors in offering credit terms.

In our testimony before this committee on April 29, 1960, we suggested the need for a new approach to the whole problem of export credit facilities with special emphasis on the enlargement of private financing facilities. With foreign competition even more intense today than it was then, we think it not inappropriate to repeat a summary of our conclusions as to the character of such an approach:

1. It should be a bold effort to obtain a substantial addition to our total export credit facilities.

2. It should emphasize and be concentrated in the private sector.

3. It should attract the interest and the resources of such private institutions as insurance companies, pension funds to the extent that law permits, and any other private sources of medium- and long-term funds.

4. It should produce a large pool of financial resources.

5. It should be thought of not as a substitute for the Eximbank but as a parallel effort in the private field to supplement an activity which has been discharged, in our judgment, in a way too dependent on Government funds and institutions.

6. It would necessarily require a cooperative effort between Government and industry, at least to the extent of Government protection against political risk.

7. It should, however, compensate Government properly in this regard so that Government would not be placed in the position of carrying most of the risk and receiving little or none of the income.

Despite our firm conviction that steps must be taken to attract a substantial, additional inflow of private capital into the export credit financing field, we are somewhat reluctant to endorse without reservation title IV of S. 1729. It appears to us that the export credit guarantees proposal is somewhat vague in certain respects and we feel unable to render any judgment on its efficacy until the details of the proposal have been spelled out more concretely.

In addition—and more importantly—the Eximbank now has under consideration a proposal designed to accomplish this same objective. It is our understanding that this proposal may be formalized within the next few weeks. Accordingly, we are inclined to recommend postponement of action on this aspect of the proposed legislation for at least a short period until more is known about the plan, and in order to determine whether the Eximbank approach can be effectively implemented.

We would, however, add the important proviso that new legislation should be considered under two circumstances. First, to the extent that existing statutory authority is not sufficiently broad to permit the Bank to carry out plans for expanding the role of private institutions in export financing, new legislation to broaden that authority may be necessary. Second, unless an effective plan is devised and implemented within the relatively near future, Congress should—because of the great importance of maintaining a high level of U.S. exports and a strongly favorable export balance—consider going forward with new legislation, possibly along the lines of the proposal contained in title IV of S. 1729.

Evaluation of other Eximbank programs.—Finally, and because they are of vital importance to realization of the bill's broad purposes, we would like to comment briefly on certain Eximbank programs which have been formally inaugurated within the past 18 months.

It was indicated by Eximbank in the spring of 1960—shortly after our April 1960 statement was submitted—that its policy with respect to financing of both printing and broadcasting equipment was to be changed. Published information shows that some financing has been made available for exports of printing equipment, and we are hopeful, based on discussions with Eximbank authorities, that this situation will continue to improve.

Information available to us suggests, on the other hand, that very little financing has been made available to date in support of broadcasting equipment aside from one large credit which was recently extended to Nigeria. We are hopeful that more such credits will be forthcoming in future months.

There was also in existence at the time of our earlier testimony a policy under which the Bank would not finance equipment purchases abroad by nationally controlled oil companies. In a release issued on March 24 of this year, however, the Bank indicated a change in that policy, stating that financing and guarantees

will now be offered for equipment sold to public as well as private oil companies. We are gratified to note this change. We hope that it will lead to a considerable increase in financing oil equipment exports. It appears somewhat too early at this time to make any judgment concerning its ultimate impact, although indications appear favorable at this time.

A further point raised in our prior testimony related to the Eximbank's requirement that the U.S. exporter, when an exporter credit is made available, assume a certain percentage of the financing. The Bank lowered the requirement from 15 percent to 12 percent of total financing shortly before our testimony was presented. We expressed our view at that time that the Bank should consider lowering the requirement further because suppliers can carry only a limited number of "12 percents." We are still of that opinion. One possible approach would be for the Bank to provide credits for all of the financed portion of the sale, but to have recourse to the exporter on 12 percent of the financed portion.

Reduction of buyer's initial cash payment.—It is our understanding that the Bank has given some consideration to the possibility of reducing the buyer's initial cash payment requirement with respect to sales which it finances from the present 20 percent of sales price, but has as yet reached no conclusion on this question. We agree that the possibility for a further reduction should be given careful consideration, but point out that any reduction in the initial burden on the buyer should not result in a corresponding increase in the obligation assumed by the seller.

Program of participation with commercial banks.—Reference should also be made to the Bank's program of participation with commercial banks in extending financing for U.S. exports. That program is discussed in our April 1960 statement.

At the time of our testimony last year we indicated our desire to give Eximbank an opportunity to try this new program. At the same time we expressed concern that the program might not attract sufficient private financing to represent a very substantial increase in export financing.

Upon reviewing this program after 15 months of operating experience we are pleased to note that there has been a significant increase in the volume of exporter credit financing which has clearly resulted from the new program. Nevertheless, there remain certain difficulties in the operation of the program, and we feel that these problems should be pointed out in order that Eximbank policies and procedures might be improved even further and that additional necessary action in this area might be taken.

One problem that has been confronted by companies—mainly with respect to sales to Europe—stems from the requirement by commercial banks in many instances that the foreign customers' notes must be guaranteed by a commercial bank in the country of the customer. European banks are not willing to offer such guarantees except where they would be willing to provide direct financing on similar terms. Since they also charge fees for such a guarantee there is no advantage to the supplier in attempting to obtain financing on sales to Europe under the new program where this condition exists. Apparently this requirement for a guarantee by a commercial bank overseas is one instituted by the commercial banks themselves, rather than the Eximbank. Presumably, it reflects the commercial banks' reluctance to make loans on a without recourse basis, even where they are taking only a small portion of the financing. Nonetheless such a requirement effectively precludes many companies (and apparently certain industries) from using this program.

Need to expedite Eximbank processing of loan applications.—We would like, finally, to note that a major reason for Eximbank undertaking its program of participation with commercial banks was to speed up the processing of exporter credit applications. It is the requirement to supply voluminous information which has frequently prevented U.S. suppliers from obtaining loans upon direct application to the Export-Import Bank. In this connection, we would like to comment on the explanation often given for Eximbank's inability to process applications more quickly than it does; namely, the lack of adequate credit information. We think that, to the extent that this is a valid reason, the Bank should give special and continuing effort to the development of more extensive credit files and additional sources of credit information in order to overcome this obstacle.

It is possible that applications submitted directly to Eximbank will now be processed more quickly in view of the Bank's announcement of March 24. In

that announcement it outlined steps taken to speed up the processing of applications where the financed portion of the transaction is less than \$200,000.

We want to emphasize, however, that, while bringing commercial banks into the picture has helped to speed up the processing of applications, the program can act only as a supplement and not as a substitute for direct Eximbank lending. Commercial banks do not have sufficient resources to provide more than a small portion of the total additional financing required by U.S. suppliers. In this connection, it is the experience of many of our member companies that commercial banks are reluctant to finance large transactions. They typically undertake participation in the program more as a service to their customers than as a means of increasing the profitability of their operations. Hence, they want to spread their participations over as many customers as possible. It is normally necessary, therefore, for suppliers to go to the Eximbank where they need large loans.

While we have every hope that the new procedures announced by Eximbank will serve their purpose, only time can answer that question. We would be happy, if it would be useful to the committee, to survey our own member companies after the program has been in operation for several months in order to determine the extent to which it is proving effective.

SUMMARY

Let us briefly sum up our views. First, there is a need for a more effective international commercial policy which requires a fresh approach to the problem. Second, we should explore at greater length the impact on our competitive position of current requirements that U.S. suppliers ship on U.S. vessels where Government financing is provided. Third, we must avoid taking steps to deter direct investment abroad which has a net favorable effect on this country's export position.

Finally, with respect to current credit facilities, there have been improvements, but further improvements are recommended. Failure to obtain advance commitments in connection with major foreign projects results in many instances in the automatic loss of business by U.S. suppliers to European or other foreign manufacturers who can and do provide necessary financing commitments with proposals or quotations. This situation should be corrected. In other areas there have been improvements and we hope that these will continue. Recently announced improvements in Eximbank procedures and policies are encouraging but it is too early to judge their effectiveness. Finally, we still think there is a need for greater emphasis on private export financing facilities. The Export-Import Bank now has under consideration a proposal designed to accomplish this objective. For that reason we are reluctant to endorse new legislation in this area until more is known about that plan and whether it can be effectively implemented. However, should new legislation be required to permit effective implementation of Eximbank's proposal or should it prove ineffective, we feel that consideration should be given to new legislation.

If MAPI can be of any further assistance to the Interstate and Foreign Commerce Committee or the committee staff, we will be privileged to have you call on us.

Respectfully,

CHARLES W. STEWART, *President.*

(The attachments to the above letter are contained in the files of the Committee on Commerce.)

STATEMENT OF EDGAR F. KAISER, PRESIDENT, KAISER INDUSTRIES CORP.

Mr. Chairman and members of the committee: The Washington office of Kaiser Industries Corp. recently made available to us copies of S. 1729, and inquired whether we would like to file a statement of our views concerning the bill. Subsequently the bill was analyzed by appropriate officials of Kaiser Industries Corp. and its following affiliated companies, all of which are engaged in export trade: Kaiser Aluminum & Chemical Corp.; Kaiser Steel Corp.; Permanente Cement Co.; Kaiser Engineers International; and Willys Motors, Inc. This statement is a compilation of their individual views and sets forth the official position of Kaiser Industries Corp. and the affiliated companies listed above with respect to S. 1729 as introduced April 27, 1961.

It is the unanimous conclusion of the representatives of our companies that S. 1729 is a desirable bill in its present form, and should be passed by the 87th

Congress. It appears to us that the bill proposes to accomplish two major objectives, both of which have definite merit. First, it provides for the reorganization of commercial attachés abroad into a Foreign Commerce Corps under the jurisdiction of the Department of Commerce, and expands the services and activities of the Bureau of Foreign Commerce in order to increase and expedite the export flow of goods and services from the United States to other countries.

It is our understanding that in recent years commercial attachés have worked under the Department of State, and were successful in accomplishing their mission at a time when competition for markets was more relaxed, and American industry held distinct advantages in many fields as a result of World War II. In the last few years, however, many foreign competitors have regained their productive capacities and have thus greatly intensified the competitive struggle in export trade. Unquestionably, this has had a damaging effect on certain American producers and could continue to do so if appropriate steps are not taken.

One such step is to expand and intensify our promotional and informational contacts overseas. The nature of the competition for markets today is such that it demands both full-time concentration and specialization, and it would seem that the Department of Commerce is best suited to give this problem the technical and undivided attention it requires.

Further, it would be possible for the Department of State to find itself at cross purposes by enunciating our overall diplomatic policies at the same time that it is promoting American economic interests in competition with the interests of friendly nations. In any event, the provisions of this bill would tend to elevate the stature of foreign commercial attachés in the eyes of other peoples.

The other provisions contemplated in title I of S. 1728 depend in large part upon the organization of the Foreign Commerce Corps. Paragraph 7, calling for an expanded trade mission program, would be particularly useful in the opinion of several of our representatives.

The second, and probably most important essential of the act, pertains to the expansion of export credit guarantees by the Export-Import Bank. Title IV of the act gives legislative sanction to the new credit policy requested by President Kennedy in his February 6 message to Congress, and subsequently announced by the Eximbank on March 24. To a man, our representatives feel this is an invaluable step toward putting American producers on an equal footing with foreign competitors in the matter of export credits.

Aside from the competitive aspects, this provision will encourage sales in sizable markets, where heretofore the risks to the seller have outweighed the willingness of the foreign buyer. The greater flexibility of credit guarantees permitted the Eximbank will not only benefit American industry, but will encourage and expedite the development of foreign nations which badly need American goods and services.

S. 1729 has varying effects on each of our affiliated companies. However, each of our representatives feels that the bill would provide positive benefits, either direct or indirect, to his own operation, and would definitely improve the overall posture of American business in foreign markets.

We appreciate the attention given this important matter by the Senate Committee on Commerce, and we urge that favorable action be taken by the 87th Congress on S. 1729 as introduced April 27, 1961.

ROCKY MOUNTAIN EXPORT CO., INC.,
Denver, Colo., June 26, 1961.

Subject: Hearings S. 1729.

HON. WARREN G. MAGNUSON,
Chairman, U.S. Senate Committee on Commerce,
Washington, D.C.

DEAR MR. MAGNUSON: I am pleased to have your letter of June 14 and respectfully submit my statements concerning this bill.

I am Rob't. H. Reynolds, president of Rocky Mountain Export Co., Inc., Denver, Colo., and representing 16 small business concerns for whom my organization serves as their exclusive export sales department. This is a closed corporation which was founded by me in 1941 and operates as a small business also.

The activity of our organization is principally in construction equipment and rotary drilling rigs for underground water development programs, blast holes, and exploration.

The bill, S. 1729, is identified as a proposal "to promote foreign commerce of the United States, and for related purposes". In my limited experience concerning legislative bills I am usually more concerned with the tail end of the proposed bill as would be indicated herein "and for related purposes," but as concerns S 1729, I find the major subject "To promote the foreign commerce of the United States" equally discerning.

I should like to comment on the statement of policy and purpose as set forth on page 2, lines 4 through 20.

(a) American businessmen are quite capable of determining their export markets and have the knowledge how to proceed, once a market is adequately surveyed. This is true whether it be direct sales or in market manufacturing.

(b) The Department of Commerce and its Bureau of Foreign and Domestic Commerce already is authorized to have "professional career service and by this admission that they don't—means the lack of attention to the selection of current staff. I believe better utilization of present staff through increasing the quality of personnel may very well suffice.

(c) Reorganization may be in order, but to authorize "as is necessary," is a blank check and pointless. What is proposed? Where would it be an improvement over present trade information? Such an authorization has bureaucratic tendencies.

(d) It is my understanding that the Export-Import Bank was already authorized to insure export credits against political and commercial risks. I am somewhat perplexed as to the reasoning why an amendment to the Export-Import Bank Act of 1945 is inserted in this bill, which is basically sponsored by the Department of Commerce. The provision of insuring such credits is enjoyed only by big business as capital in small firms for extension of foreign credit is practically nil.

TITLE I. EXPANSION OF SERVICES FOR EXPORT PROMOTION

1. What kind of services are proposed? Who in private industry has asked for additional services? What does Department of Commerce think is needed that isn't already available?

2. Commercial attachés and current staffs abroad are presently charged with such responsibility. The questions asked in above paragraph I should be asked on this subject.

3. Such informational service is presently quite adequate. I cannot believe that the Department of Commerce should expect to duplicate services being extended by their present department and private firms.

1. Synopsis of U.S. Government proposed procurement sales and contracts awards (daily by Department of Commerce).

2. Foreign Commerce Weekly—Department of Commerce.

3. International Construction Reporter (private, copy attached).

4. Trade Journals *American Exporter (Dun & Bradstreet). Export Trade & Shipper (McGraw-Hill and multitude of others).

4. The exhibition of American products in foreign fairs, expositions and trade centers should be encouraged. However, this is not an area in which the Government should directly participate. There will be times, such as the Moscow exhibit about 2 years ago, where it was of national interest to present American ingenuity and progress. It is impossible to have an equitable method of selecting products to be exhibited and Government should stay out of this field of promotion.

5. This would be a complete waste of taxpayers money and additionally would be a direct loss of revenue to the U.S. Treasury by creating useless tax exempt business expense. What purpose could this serve? Foreign buyers are not interested in looking at piece of equipment on display. They come here to visit the plants and make field trips to see not only the latest models at work, but to learn advanced techniques. Our department stores, shops and trade shows, and special industry conventions, serve the foreign visitor very well. We surely cannot authorize the Department of Commerce such a request.

6. This is truly a commercial problem and should be coped with by each industry. There is no justification for the Department of Commerce to become involved in real estate and facility ventures abroad.

7. The sponsorship of trade missions is already authorized and could be continued on a reasonable basis.

8. U.S. trade centers are reasonable only when associated with trade fairs. It is not a logical approach if done on a permanent location basis.

9. The provisions of this paragraph is not sufficiently of national interest to appropriate tax funds for such use. Government should not become involved in the normal processes of commerce. Individual product survey must be conducted by interested firms or as a joint industry venture.

10. If this was approved, it would mean Government going into another business and one which is handled very well by private publishers.

11. Again Department of Commerce and/or Government should not be involved in promoting trade affairs or floating exhibits. Upon occasion the Department of Commerce might lend support, but at no time undertake complete sponsorship nor direction.

12. No legislation is required to reorganize or streamline the Department of Commerce into an effective organization. It is doubtful that additional employees are needed if the Department maintains itself in the area of fundamental service for which it was created.

13. The Department of Commerce is presently authorized to hold seminars, export promotion conferences, and when they have something worth while to discuss, then to continue the present program is in order.

TITLE II. EXPANSION OF SERVICES BY SMALL BUSINESS ADMINISTRATION SECTION 201 (A)

This apparently is a subtle way of building up another agency while promoting a bureau.

I have for 21 years worked in the foreign trade field representing small business and I assure the sponsoring Senators of this bill that small business cannot survive in export markets, even with congressional help. They can only survive by forming public held cooperate structures for marketing small business products.

(3) There is no need of further duplicating available information under another name.

(4) Small business should not require special representatives if our Government representatives are doing the job assigned to them. Small business certainly should be considered in the scheme of things without special legislation.

(5) Most small businesses are not ready for export sales and those which have products sold on a national scale can employ the services of a qualified combination export manager or establish their own built-in department.

(6) Assistance on this can even be obtained from Internal Revenue Department.

TITLE III. FOREIGN COMMERCE CORPS

This is not an effective nor necessary approach and I cannot see any value derived from such a corps. What can this corps do that isn't already authorized within the organization of the Department of Commerce, Bureau of Foreign and Domestic Commerce? Our commercial attaché and consular offices should and could perform the required services.

I can see no limitation as to number of people, cost, or any control on such a program. This is certainly not to be pushed through without some serious consideration. Surely it will not be approved.

TITLE IV. EXPORT CREDIT GUARANTEES

I am unable to comment on this as I cannot understand what this amendment to the Export-Import Bank Act of 1945, is doing in this bill.

If this is a gimmick to authorize an export credit insurance company as proposed by the New York group—which would, in effect, make the Government a guarantor of losses, then it better be thrown out. I believe no business, industry, or group has a right to be underwritten by the Government when such guarantees are not available to other similar groups. The statement in paragraph (2) leads me to surmise such is contemplated.

I regret my presence is not possible as I would like to elaborate considerably on various points.

Thank you for this opportunity to express my personal thoughts.

Sincerely,

ROBT H. REYNOLDS, *President.*

WEISFIELD'S JEWELERS,
Seattle, Wash., June 20, 1961.

Senator WARREN MAGNUSON,
Senate Office Building,
Washington, D.C.

DEAR SENATOR: I read the contents of Senate bill 1729 and was more than impressed with what it would do to further the development of international trade. In my opinion it is what we have needed for a long time. I took the liberty of discussing this bill with Mr. A. W. Paterson, who is the president of Consolidated Services, Inc., who has had years and years of experience in foreign trade and asked him to make some comments on this bill. I am enclosing his written statements along with my thoughts.

As you know, I have made several trips to foreign countries and have studied some of the problems of foreign trade and the facilities and tools that the various Embassies have had to work with have been negligible. I believe that this bill will help develop the necessary trade that our commercial attachés have perhaps wanted to do, but did not have the facilities to work with.

There are one or two recommendations that I would like to make:

1. That when a desirable person is found for a certain country that he become more or less a permanent representative, rather than transferred every 2 or 4 years.

2. That a provision be made where necessary, when there is a difference between American shipping and foreign shipping rates, that some equalization rate be set up.

This bill is really a necessity for the hopes of yourself and other members of this committee who have spent a great deal of time in formulating a program to develop foreign commerce, and by the passage of this bill would make it a realization.

Sincerely yours,

LEO WEISFIELD.

CONSOLIDATED SERVICES, INC.,
Seattle, Wash., June 20, 1961.

Mr. LEO WEISFIELD,
Chairman of the Board, Weisfield's, Inc.,
Seattle, Wash.

DEAR MR. WEISFIELD: I have discussed the contents of Senate bill 1729 with Mr. Ken Smith, president of Birkenwald, Inc., with whom we are affiliated, and he concurs in the following comments regarding it.

The many aspects included in this bill indicate a comprehensive understanding of exporting by the authors of the bill.

We believe that section 401, title IV "Export Credit Guaranties" is an outstanding step forward in the promotion of export business. A great many export activities are now being operated on a curtailed basis due to exporters' fear of credit losses. Many more export promotion activities would develop as soon as this portion of the bill becomes effective—and its existence publicized as provided for by sections 101 and 201. If the provisions of this section could be extended and integrated with Export Import Bank and/or Development Loan Fund activities so as to allow installment selling by American exporters in foreign countries, the export activities in certain fields would be tremendous. This installment selling would help American exporters to compete against many foreign producers who often enjoy a price advantage. In addition, it would open many new markets. This aspect should be apparent when the beneficial effect of installment selling in the United States is considered.

We feel that section 301, title III "Foreign Commerce Corps" is another good feature of this bill. This would develop an organization of thoroughly trained men familiar with both our American export capabilities, and the procedures necessary to sell our products abroad.

All of the other portions of the bill are well designed to have a beneficial effect on some phase of U.S. export activities.

We sincerely hope that Senate bill 1729 makes favorable progress through our Senate.

Yours very truly,

A. W. PATERSON, *President.*

NATIONAL LUMBER MANUFACTURERS ASSOCIATION,
Washington, D.C., June 26, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Senate Committee on Commerce,
U.S. Senate, Washington, D.C.*

DEAR SENATOR MAGNUSON: Thank you for your letter requesting our views on a bill, S. 1729, which you have joined in cosponsoring with Senator Engle and others, relating to the promotion of our country's foreign trade.

The National Lumber Manufacturers Association, representing 16 regional and species associations of lumber manufacturers throughout the United States, has always had a keen interest in foreign trade. The export market for our products has been particularly important to our industry as it has often enabled American lumber producers to export species and products which are in excess of our domestic demand. International markets thus permit our industry in many instances to adjust more readily to economic conditions.

During the 1920's, U.S. exports of lumber averaged about 2.9 billion board feet annually. During the 1950's, exports of lumber averaged 756 million board feet per year, or only about one-fourth the levels prevailing in the earlier period. The United States has for the past 20 years been a net importer of lumber, in contrast to earlier periods when exports exceeded imports. In 1960, for example, imports were more than four times greater than exports; whereas in 1930 exports were twice the volume of imports.

The Department of State by Executive order of the President in 1939 assumed authority—which had been originally lodged in the Department of Commerce—over personnel handling our Government's oversea trade promotion programs. The general feeling in our industry is that reversal of our country's position from a net exporter of forest products to a net importer might not have been so severe if authority over such personnel had continued to remain within the Department of Commerce.

At present, commercial operations appear to have become just one of the State Department's broad activities toward developing and carrying out our Nation's foreign policies—and in some instances it would appear to have been relegated to a very minor position. The general feeling is that foreign economic policy—which is also exceedingly important to our Nation's future—has become secondary to the Department's primary responsibilities in the area of foreign policy. Personnel carrying out commercial responsibilities must have a broad knowledge and understanding of business both at home and abroad. It is our experience that the training and background of Commerce Department personnel ably qualified them to perform such tasks.

In following the hearings before your committee on the U.S. trade position in the last session of Congress, and in our review of your committee's report based on these hearings, we are particularly encouraged by the suggestion that our Government's foreign commercial activities should again be completely lodged in the Department of Commerce.

The provision of S. 1729—title III—which would establish a Foreign Commerce Corps within the Department of Commerce is a particularly commendable one, and we strongly urge that your committee approve this proposal. This particular provision of Senator Engle's bill is so important that we would further urge that your committee seriously consider proposing it as separate legislation, and favorably reporting it to the Senate.

Since we presently have no approved policies respecting the other provisions of S. 1729, we regret that we cannot at this time comment on these provisions of the bill.

Your cooperation in restoring authority to the Department of Commerce to appoint commercial personnel employed at our foreign embassies abroad would be a valuable service to your country and to the entire American business community.

We respectfully request that you make this letter a part of the official hearing record on S. 1729. A copy of this letter is also being sent to each member of your committee for their information.

Sincerely,

HENRY BAHR,
Vice President and General Manager.

HILL ELECTRONICS, INC.,
Mechanicsburg, Pa., June 23, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR SIR: Thank you for your kind letter of June 15, 1961, relative to your committee's activities on the promotion of foreign commerce, especially with respect to the role of the small business organization in the foreign market.

After careful study of bill S. 1729, and especially title II, it would seem to us that activities along the lines indicated in title II would have many aspects beneficial to the smaller business organizations. We are, as you indicated, mindful of foreign commerce and desirous of expanding our presently rather limited market. Limited, by way of explanation, largely by the considerable expenditures necessary in the initial development of such a market. It would seem, therefore, that if one or more of the Government activities were to act as a clearing channel, our problems would be considerably eased.

Thank you for your consideration in asking our review of your matter. Please feel free to call on us again at anytime you feel we may be of assistance.

Very truly yours,

B. C. HILL, Jr., President.

MOORE-McCORMACK LINES,
New York, N.Y., June 23, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: This will acknowledge your letter of June 14, advising that the Senate Committee on Commerce will hold hearings on S. 1729 and your invitation to submit a statement for insertion in the hearing record.

It is indeed gratifying to know that a concerted effort is being made through S. 1729 to further the policies of the U.S. Government in undertaking a program for the expansion of our commerce. It goes without saying that we heartily endorse the program because we feel that every effort must be made to expand the export commerce of our country.

We feel certain that you concur in our belief that shipping comprises a fairly substantial segment of American industry and, as such, we respectfully suggest that some reference be made in section 101 to encourage the use of American-flag ships in the carriage of our commerce wherever possible.

Under title IV, section 401, paragraph 7, we suggest the word "services" should include "transportation." In reality, transportation constitutes a service business, but it is our feeling that inclusion of this word is advisable.

It is our understanding that a more comprehensive statement will be submitted by the various transportation organizations and, in the meantime, permit me to extend my best wishes for the successful passage of S. 1729.

Respectfully,

D. BRENDAL GEDDES,
Vice President and Director.

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N.Y., June 22, 1961.

Senator WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: With reference to your letter of June 14 in connection with the hearings on S. 1729, the National Foreign Trade Council has from time to time expressed views concerning facilities and services furnished by the Government in promoting foreign trade, and in regard to export guarantees and financing. We have not, however, taken any position on the internal structural or administrative arrangements of Government departments to best serve the interests of American foreign trade.

For the information of the committee, we are enclosing copy of some recommendations of the most recent national foreign trade convention, and a council report on export credit and political risk guarantees and financing.

We trust that this information will be of assistance to the committee in its deliberations.

Respectfully yours,

WILLIAM S. SWINGLE, President.

PROMOTION OF INTERNATIONAL TRADE—INTERNATIONAL TRADE AND FINANCIAL STATISTICS

RECOMMENDATIONS OF 47TH NATIONAL FOREIGN TRADE CONVENTION, NOVEMBER 1960

Promotion of international trade

The convention recommends that greater facilities be provided to the Bureau of Foreign Commerce, U.S. Department of Commerce, and to the U.S. Foreign Service so as to enable these agencies to strengthen their trade promotion services to American business. In particular, the convention urges that these agencies intensify their efforts to improve and expedite the supply and dissemination of commodity, economic, and commercial intelligence reports regarding overseas markets.

The convention commends the Departments of Commerce and State for the efforts they are making in strengthening their trade promotional activities in the United States and abroad. It believes that such efforts, including activities carried on in cooperation with American private enterprise through foreign trade missions and national and regional export expansion committees, can contribute substantially to the increase of U.S. exports and, thereby, aid in helping to bring our international payments into balance.

International trade and financial statistics

This convention joins with those of previous years in again stressing the value to business and to Government of a wide range of detailed statistical information on our international commercial and financial transactions. Comprehensive, timely, and readily accessible data of this type are required for the measurement of past performance, the appraisal of new trends and conditions, and the formulation of appropriate policies and programs for the future. Confronted, as we are, with an increasingly complex and competitive world market, it is imperative that these statistical facilities and services be strengthened. Despite the encouraging evidence of added support and interest by the Congress and by various executive agencies in the provision of these statistics, the convention believes that the coverage of international trade, investments, and balance-of-payments data can and should be still further expanded and improved, and recommends that funds sufficiently ample for this purpose be allocated to the appropriate agencies.

The convention also specifically suggests that the Bureau of Foreign Commerce give early priority to the publication in convenient form of historic and comparative trade data for the United States, thereby resuming and bringing up to date the highly useful earlier series of reports of this nature. Further, noting the lack of reliable statistical information on the foreign trade of individual States and regions within the United States, the convention calls on the Census Bureau to conduct a pilot study into the technical feasibility and attendant costs of recording and compiling such data.

EXPORT CREDIT AND POLITICAL RISK GUARANTEES AND FINANCING

REPORT BY THE NFTC INTERNATIONAL FINANCE COMMITTEE APPROVED AT A MEETING OF THE NFTC BOARD OF DIRECTORS, MARCH 23, 1961

The NFTC International Finance Committee has reviewed the present situation of export financing in the United States and has reached the following general conclusions:

(1) During the past year, as competition for world markets has grown still more intense, it has become increasingly evident that the maintenance of a flourishing and expanding export trade requires, among other things, measures to extend and improve the export guarantee and financing facilities available to U.S. exporters. Although in many ways existing facilities compare favorably with those of other industrial countries abroad, and in some respects may be superior, there are certain definite deficiencies and inadequacies which need to be corrected. The committee welcomes the recognition accorded this fact by President Kennedy in his message of February 6 and the simultaneous call for early submission of a new program under the Export-Import Bank to place our exporters on a basis of full equality with their competitors in other countries.

(2) The committee believes that the time has now arrived when a comprehensive system of export guarantees or insurance against both credit risks and political or transfer risks can and should be established in the United States.

While existence of such a system will not per se automatically assure the provision of the requisite funds for financing sales on credit, it should enable more funds from private sources to be so committed and employed. In whatever form export credit insurance coverage is made available, whether through a private corporation (or corporations) with the right to reinsure with the Export-Import Bank against political risks or directly through a governmental agency such as the Export-Import Bank, it should be offered on appropriate and reasonable terms and on a sufficiently flexible administrative basis to allow varying demands and circumstances to be met. Such flexibility would include the issuance of guarantees directly in the first instance to the financing institution as well as to exporters. Also, exporters wishing only to insure against political risks should have the optional right to contract for this type of restricted cover. Further, insurance coverage should be extended to consumer goods and industrial raw materials as well as to capital goods.

(3) If private organizations, even with Government cooperation, find that they are unable to meet these insurance needs effectively, early action should be taken by the Government to do so and on a self-supporting basis. In this event, the committee feels that it would be preferable for the Government to place primary responsibility on the already established and experienced Export-Import Bank, rather than create another specialized institution. But, a definite distinction should be drawn between the insuring and financing functions of the Export-Import Bank, so that each will be handled by separate departments. Exporters wishing only to protect against credit and political risks should be able to arrange and obtain such coverage simply and expeditiously.

(4) At the same time it is obvious that there will be a continuing extensive demand and need for export financing assistance from governmental sources, especially when terms of longer than 1 year are involved, irrespective of what may be offered in the export guarantee field. Over the years, the Export-Import Bank has set a good record of accomplishment in this area and should continue to bear the prime responsibility. In the future, however, it is suggested that while continuing to do project financing the bank give far greater attention, than it recently has, to aiding and facilitating the successful completion of single transactions initiated and developed by the individual exporter. Improvements can also be made in the simplification and streamlining of procedures, in materially shortening the time required to obtain Export-Import Bank credits, and in developing greater flexibility in the application of its requirements. Among the various steps that might be taken to increase the amount of private financial participation would be the establishment of rediscount facilities for approved or insured transactions to which commercial banks and other financing institutions might have access after the expiration of a prescribed period. Also, whenever there is a sharing of the financing, guarantee coverage against political risks should be made available to the exporter and to commercial banks on that portion of the credit which they carry in cooperation with the Export-Import Bank.

(5) Finally, the committee feels that although the Export-Import Bank should adopt a more vigorous and promotional attitude toward exports, including the assumption of wider risks, it should continue to be guided by basically sound business considerations.

GENERAL ELECTRIC CO.,
MANUFACTURING SUBSIDIARIES DEPARTMENT,
New York, N.Y., June 23, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: This acknowledges your June 14 letter inviting expressions of views on S. 1729, a bill to promote the foreign commerce of the United States. As a citizen, I feel privileged at the opportunity to respond in the form of the accompanying memorandum, with its supporting documentation, the contents of which are expressive of my personal views.

My proceeding along these lines is a logical sequitur to my efforts last year to cooperate with your committee staff in some of the aspects of its work in the preparation of the fruitful study on our foreign commerce, under the guidance of George Barnes, and S. 1729 presumably is the translation into legislation of some of the lines of action suggested in that report.

My reservation to the effect that my response expresses personal views as a citizen is dictated by the practical consideration that the June 24 deadline for filing statements precludes obtaining the necessary clearances to permit me to convey these observations as reflective of corporate beliefs, but in my personal judgment, few in our company would dissent from my views.

As a practical matter, I have had deep interest and long experience in foreign trade in behalf of the company that employs me, and which I am currently serving as international economist—which brings into my purview such matters as S. 1729, for example, together with other similar issues of our foreign economic policy as such affect our activities.

This brings me to another bill before the Senate—specifically, S. 1983, which incorporates the administration's proposals on foreign aid, to describe it by its short title, and which is being considered currently by the Committee on Foreign Relations. There appears to me to exist a specific linkage between the basic purposes of S. 1729 and section 604(a) of S. 1983.

This latter refers to procurement under the proposed act, and as a taxpaying citizen, as well as in my capacity as a member of the staff of a corporation engaged in foreign trade, I am deeply concerned over the wording of section 604(a) because it seems to me to continue past practices based upon worldwide procurement.

Considering the emphasis that I note in S. 1729 upon means for financing exports (title IV) and upon interests of small business (title II), it occurs to me that the Committee on Commerce, under your chairmanship, would tend to view the potential of \$1½ to \$2 billion of financing proposed to be made available for foreign aid procurement as an important means for promoting U.S. exports.

As now worded, section 604(a) of S. 1983 could lead to financing purchases outside of the United States to extents that cannot be foreseen, within the \$1½ to \$2 billion annually available. It seems hardly necessary to point out that any U.S. dollars used to finance offshore purchases would (a) subsidize and strengthen foreign competitors of U.S. industries and U.S. labor; (b) deprive U.S. export industries of that many dollars of potential financing.

Although the broad issues of U.S. foreign aid programs are complex and debatable, it seems to me that the implementation, particularly in respect to procurement, is not so complex. My own uncompromising view is that expenditures related to foreign aid should be directed toward the sources that make such funds available in the first place through their taxpayments—namely U.S. industries and workers.

In view of the fact that this matter of foreign aid expenditures, and that the argumentation favoring concentration of procurement involves many facets, my observations in this letter, intended to transmit views on S. 1729, will be limited to the foregoing key paragraphs. I will, however, undertake to send you a separate memo on S. 1983 in view of its broad relationship to S. 1729.

With appreciation at the opportunities afforded me by your June 14 letter to "ventilate" my views on these matters, which involve deeply the public interest, I am,

Respectfully yours,

ASLAG HALLUM ESKESEN.

JUNE 23, 1961.

HON. WARREN G. MAGNUSON,
Chairman, Senate Committee on Commerce:

In line with a letter of transmittal dated June 23, 1961, the undersigned Aslag Hallum Eskesen, since about 1930 engaged in activities relating to the international operations of General Electric Co., and currently engaged in the field of considerations related to international economic and business "climates," takes pleasure in submitting to the committee personal views as a citizen on the legislation proposed in bill S. 1729, designed "to promote the foreign commerce of the United States and for related purposes."

Inasmuch as title I, export promotion services; and title III, Foreign Commerce Corps are closely related, comments relative to these follow on the next two pages. Thereafter, are incorporated observations relative to title II, "small business" services. Referring broadly to these titles, they evoke generally the commendation of the undersigned, subject only to a few suggestions or relevant analyses.

In the perspective of the writer, it is title IV, export guarantees, that is potentially the most significant of the proposals, and it is felt that the title IV approach is not adequate to the needs. Consequently, important to this documentation is a rather complete memorandum that follows observations on title IV. This sets forth the writer's suggestions on export insurance and credit facilities needed to attain the objective of expanded exports.

It should hardly be necessary to add that the undersigned is quite prepared to attempt to clarify any questions that may arise from these observations.

TITLE I. EXPANSION OF SERVICES FOR EXPORT PROMOTION

The provisions under this title appear to be ample for the purposes of improving and expanding governmental services intended to assist U.S. industries in developing export markets. Assuming appropriate funds would be made available to conduct this program, the problem is reduced to one of effective implementation by the Department of Commerce.

There is, however, one suggestion that occurs to the undersigned, and that involves the desirability of extending "consultations" beyond the Department of State, to include also the export business industries in respect to the nature and extent of the services that can be useful to such purposes. This suggestion is important to the objective of attaining optimum useful effectivity.

In this connection, the writer headed a very informal "ad hoc" group of about 30 export-minded concerns—ranging from powders and pills to tractors and turbines—in late 1959, which met with Bureau of Foreign Commerce personnel and made a series of recommendations as to kinds of data needed, and suggested future continued informal discussions along similar lines.

The key suggestion was based upon conducting such future discussions with the various trade and industry associations which could speak for their entire memberships and thus be more broadly representative in expressing the needs. This, incidentally, was also intended to preclude individual "eager beaver" concerns from concentrating excessively on their own needs.

TITLE III. FOREIGN COMMERCE CORPS

The writer can see advantages in the changes proposed. In their net effect, these changes would make "commerce" as such a career service for corps members. Under present conditions, activities in the commercial field are one of the various facets of Foreign Service in which the ultimate goal of the individual is the "top of the heap," as ambassador.

There are obvious advantages in specializing in commerce and establishing as top target for career personnel the No. 1 assignment in that capacity in the most important foreign post. As an analogy to business as such, some concerns, for example, send out financial personnel with advance awareness that they can rise in that field alone.

There are also disadvantages in such a system which could tend to restrict opportunities to the assigned field, and thus to fail in developing with well-rounded U.S. governmental representation abroad. Perhaps, considering that national economic policy is a major component in foreign policy, the solution may call for more economic-minded diplomats.

However, under the circumstances that the present system has been under criticism—at times unwarranted in personal opinion of the writer—there can be no harm done by a change. There do occur several suggestions in respect to operational activities of Foreign Commerce Corps in relationships with U.S. business interests.

Commercial officers assigned to business centers abroad might do well to set up a sort of "advisory council" which would include selected and competent locally resident U.S. businessmen, for purposes of providing informal channels of communication and exchanges of ideas.

They could also be assigned to serve with U.S. representatives on missions dealing with "foreign aid" projects financed by the United States from the viewpoint of considering such projects in respect to the potential procurement by purchases from U.S. suppliers.

TITLE II. EXPANSION OF SERVICES BY SMALL BUSINESS ADMINISTRATION

The undersigned can visualize national benefits consequent to increased participation in exports by so-called small business, and accordingly is sympathetic to the intentions expressed under this title. However, there are some

business and risk factors involved of which the writer feels there is need for awareness.

First: Export selling—as distinct from “order taking”—calls for active coverage in the field by manpower of adequate competence. The consequent expenses, and attendant problems of dispersal of limited manpower, would seem to be a deterrent. The following hypothetical situation is illustrative of the “business arithmetic.”

Assume a “small business” in which (a) the objective is a pretax profit of 12½ percent, which is actually not as attractive as it may be realistic, (b) the export expense budget annually is \$125,000, which may be even below practical limits, (c) the annual output per worker (sales values) is \$10,000, and (d) the exports represent 10 percent of sales volume.

Under such assumptions, this “small business” would have an annual volume of \$10 million and a 1,000-man work force, and of the latter, 100 laborers would produce \$1 million for export, on which a gross margin of 25 percent would be necessary to cover \$125,000 of export expenses, and leave a pretax profit of the desired 12½ percent.

This rather elementary “business arithmetic” would seem to point to the reasons for relative noninterest of the “small business” concerns in the United States in export business, except as it comes in the form of “gravitational orders.”

Actually, the latter probably have been a more important source of orders for “small business” than is generally appreciated. Under the U.S. industrial system, “big business,” which engages actively in export trade, relies extensively upon a national network of suppliers of materials and components, and thus many a “small business” may be in the export business without even knowing it, as supplier to “big business.”

Beyond this indirect form of solution it is interesting to note that title II in paragraph (6) reads—“to encourage and assist ‘small business’ in forming associations as authorized under the Webb-Pomerene Act.” This points in a generally desirable direction, but would seem to fall short of spelling out the details. The latter, however, would require a separate study of the problem and the possibilities.

Second: Export selling by “small business” involves another major problem, which involves the risks of selling goods to foreign customers who operate within legal systems abroad, and in terms of their own local currencies. Solution to this problem relates to the matter of export credit insurance, as discussed under title IV in this series.

TITLE IV. EXPORT CREDIT GUARANTEES

The proposed legislation under this title is interpreted as amending the Export-Import Bank Act to the effect of clarifying and extending its intended functions in the field of covering export risks by appropriate guarantees.

The need for an export guarantee program capable of meeting competition of such facilities as made available by other competing industrial nations, has long been evident, and has been the subject of testimony that at times has been eloquent

To the extent that such needs are recognized in this proposed legislation, the undersigned is inclined to express that what is proposed is an improvement, but to qualify to the effect that what is proposed is insufficient.

For one example, while attention is given to the coverage of risks by guarantees, there seems to be no recognition of the fact that the next step is to convert the insured documents into cash by negotiating at commercial banks.

For another example, there can be reasonable doubt that an export credit insurance system, based upon national policy reasons, can operate effectively on the basis of a multiplicity of competing entities attempting to tie into such a system.

Moreover, it is noted that no provision is made to change the present rules to the effect that the values of guarantees covered by Eximbank must be chalked up in full against its net available authorized loanable funds.

In other words, every dollar of risk insured is deducted from uncommitted authorization exactly as though that dollar had been committed for a loan, rather than dealing with the risks in terms of setting up reserves for reasonable losses.

The basic problem appears to the writer to be to design and build a 1962 model to meet the present needs, and, in doing so, to salvage those parts of the 1945 Exim model that are still useful—in preference to the proposed overhauling.

The writer has given a considerable amount of attention to the problems of financing U.S. exports. The latest "distillation" of thinking in this respect is incorporated in a memorandum, "Credit Financing and Insurance for U.S. Exports of Manufactures."¹

This document has been made available to officials of the Eximbank and to other persons in the public as well as private sectors, as germane to a problem of national interest.

It is incorporated with these comments on title IV as an integral part thereof, and its contents are recommended to the Senate Committee on Commerce.

The net effect of this memorandum, which does not lend itself to ready summarization, is to propose the design of an export credit structure suitable to the U.S. national objective of increased exports.

Respectfully submitted.

ASLAG HALLUM ESKESEN.

FORD MOTOR CO.

Washington, D.C., August 8, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.*

MY DEAR MR. CHAIRMAN: You will find attached a statement by Ford Motor Co. which is in support of the principal provisions of S. 1729, a bill to promote the foreign commerce of the United States.

It is hoped that this statement will be helpful in the consideration of this measure by your committee, and it is respectfully requested that it be included in the record of the hearings conducted on this bill.

Sincerely,

R. W. MARKLEY, Jr., *Manager.*

STATEMENT REGARDING SENATE BILL 1729

The Ford Motor Co. invites the Senate Committee on Commerce to consider its views on S. 1729 as follows:

We support the general purpose of the bill—to take direct action to stimulate a substantial increase in the flow of U.S. exports. Such an increase is urgently needed to allow the U.S. Government and U.S. private enterprise to continue or even to increase, the major contributions they have been making to economic progress throughout the free world. A basis must be reestablished, however, for them to make their contributions without subjecting the United States itself to undue financial strain.

We expect that the benefit, from the provisions of S. 1729, would be largely indirect. As an American firm, we have a strong interest in the future strength of the American balance-of-payments position, and in the maintenance by the United States of trade and financial policies which support and encourage continued trade expansion. These conditions require a large and reliable flow of exports, drawn from a wide variety of U.S. producers, large and small.

We welcome the determination apparent in S. 1729 to give Federal Government backing to political and commercial risk insurance on export credits, fully equal in comprehensiveness and flexibility with the export credit insurance which has been available to our foreign competitors for a number of years. Such insurance will be of value to American exporters in their efforts to sell U.S. products in highly competitive export markets in which it is becoming increasingly necessary for U.S. exporters to be able to match the credit terms offered by European and Japanese competitors.

The rapid growth of competitive automotive exporters in Europe and Japan, and of local manufacture in a number of other large markets, has created new conditions under which the share of U.S. automotive exports in world trade has decreased. According to Department of Commerce trade statistics, the value of annual automotive exports from the United States has fluctuated between \$1¼ billion and \$1½ billion during the years 1953–60. During these same years, our estimates indicate that the percentage of U.S. passenger cars in the total number sold in markets outside the United States fell steadily from more than 7 percent in 1953 to less than 2 percent in 1960. In the world market for commercial vehicles, the United States is maintaining a larger share than in the case

¹ This document has not been printed herein, but is contained in the files of the Committee on Commerce.

of cars; nevertheless, the percentage of U.S. commercial units in the total sold outside the United States which held above 16 percent in each of the years from 1953 through 1956, has fallen rapidly since then, and was only 6.7 percent in 1960.

The proposed availability of export credit insurance comparable in coverage to that available to foreign competitors should be of material assistance to U.S. automotive exporters.

In former years, the Export-Import Bank has been unwilling to finance any sale of goods from the United States where the foreign purchaser was affiliated with the seller in the United States. (We understand this is no longer the Bank's policy.) A large percentage of export sales made by Ford Motor Co. are made to its subsidiary companies overseas. In numerous cases, for one reason or another, these sales are made on credit, sometimes as a result of conditions imposed by the foreign government. Ford Motor Co. would favor language in the bill or in the legislative record indicating that Congress is agreeable to Export-Import Bank financing such sales if reasonable measures are taken to prevent or minimize the possibility of a collusive default.

We are not able to judge how the responsibilities in the provision of export credit insurance, covering commercial and political risks, can best be divided between the Export-Import Bank on the one hand, and insurance companies, financial institutions or other private organizations on the other. We welcome, however, the new language proposed for section 401(C)(2) in S. 1729, directing the Export-Import Bank, to the fullest extent possible, to make use of the services which private institutions can provide but leaving the Export-Import Bank with undivided responsibility for getting an adequate program started. This seems to provide ample authority for full use of all existing organizations which can make a contribution toward overcoming the present significant weakness in U.S. credit facilities for export sales.

(The comments of the Government agencies follow:)

COMPTROLLER GENERAL OF THE UNITED STATES,

Washington, D.C., June 1, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate.*

DEAR MR. CHAIRMAN: In response to your request of May 8, 1961, for our views on S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes, this is to advise that we have no comment to make concerning the general merit of the proposed legislation. However, the following suggestions, of a technical nature, are submitted for your consideration.

Reference to section 307 at line 25, page 13, of the bill was apparently intended as a reference to section 9; and reference to section 306 at line 1, page 16, was apparently intended as a reference to section 8.

Reference to 7 U.S.C. 1705 in section 501 of the bill was apparently intended as a reference to 7 U.S.C. 1704. Also clause (1) of section 501 appears unnecessary since paragraph (r) is currently punctuated with a semicolon at the end thereof. (See sec. 8 of Public Law 86-341, 73 Stat. 607.)

Sincerely yours,

JOSEPH CAMPBELL,

Comptroller General of the United States.

JULY 21, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Commerce Committee,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your request of May 8, 1961, for the views of this Department respecting S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes.

The bill states it to be the sense of the Congress "that the peace and well-being of the peoples of the world increasingly depends on wider recognition, both in principle and practice, of the interdependence of men upon an expanding exchange of goods and services." The bill would have the Congress find and

declare "that foreign trade represents a strong and vital element in the economic leadership of the United States among free nations."

S. 1729 would generally authorize a variety of services to assist U.S. manufacturers and businessmen in developing export markets, and would establish within the Department of Commerce a professional career service to promote the foreign commerce of the United States, including a so-called Foreign Commerce Corps. It would also provide specifically for an expansion of services to small business, and the establishment of a program for the insurance of export credits against political and commercial risks.

The Department of Commerce is, of course, vitally interested in any and all necessary and practicable means which will promote the foreign commerce of the United States. President Kennedy stated in his message on the balance of payments, of February 6, 1961, "In seeking overall equilibrium we must place maximum emphasis on expanding our exports." He declared further that "the Government must play a more vigorous part in helping to enlarge foreign markets for American goods and services," and he directed specifically the Department of Commerce to "provide energetic leadership to American industry in a drive to develop export markets" and that we "promptly increase our commercial representatives and facilities abroad."

S. 1729 is intended to facilitate these objectives and we are generally in accord with its underlying purposes, subject, however, to the following comments regarding certain of its provisions.

Title I enumerates a variety of export promotion functions, many of which are already being performed by this Department. There are other related functions not specifically covered by this title which this Department is performing in the fields of trade, travel, and investment. I have in mind, for example, our activities to develop and disseminate information about trade and investment opportunities, both here and abroad, and new efforts that are being developed particularly to encourage travel to the United States. We approve, therefore, the provisions of title I, generally, it being understood, however, that they are not intended to limit our activities in this area under our general enabling authority. It should further be noted that we are not prepared at this time to justify undertaking all of the specific services contemplated by title I, e.g., advertising of trade services and trade and investment opportunities in private commercial informational media, or the acceptance of paid advertising in appropriate departmental publications. It is hoped that information could be developed in the course of public hearings on S. 1729 and otherwise to provide a basis for determining the need and desirability of these and other new activities provided for in title I.

Title II of S. 1729 would authorize the Small Business Administration to undertake services of a similar nature and for the same purposes as authorized in title I, but restricted to small firms. We believe these provisions to be unnecessary in that they would, in effect, authorize services to small business already authorized and actually being performed in this area by the Department of Commerce and the Small Business Administration.

Our existing informational and advisory services are designed and made available for use by all firms, both large and small, and our experience shows that small firms are by far the most frequent and extensive users of our services. For example, last year almost 80 percent of actual sales of so-called trade lists to facilitate the establishment of overseas business connections were made to small firms. And 70 percent of the sales of "World Trade Directory Reports," containing information as to the resources and special qualifications of foreign firms, were made to small businesses as well as a similarly high percentage of our special "trade contact surveys." This experience is generally true of most of our other services, and it results, of course, from the fact that, unlike larger firms, small businessmen ordinarily have neither the financial nor personnel resources to gather the information required for the conduct of overseas operations.

We are very much aware of the need and opportunity to bring more American businesses, particularly small firms, into the export field and are expanding existing services and developing new ones to accomplish this purpose. For example, through our domestic field offices and with the cooperation of local chambers of commerce and other business associations, we have recently been holding export promotion and expansion workshops throughout the country. Increased funds being made available for the current fiscal year will permit an increase of these and other direct efforts on our part to reach the small business community.

The Department of Commerce and Small Business Administration have recently reached what we believe should be an effective working arrangement for

handling their respective roles in developing our export trade. In general, this will provide for referral to the Department of Commerce of individuals or firms which, through SBA counseling, have become interested in exporting and which require technical information, data on trade opportunities, and other trade services. The two agencies likewise intend to cooperate in the Administration's new program of trade stimulation, with particular reference to encouraging small business participation in trade conferences, trade fairs, and trade missions. We are aware that avoidance of duplication may be a continuing problem, but we believe that the new arrangement is a constructive first step in a process of achieving closer association between the two agencies.

Title III of S. 1729 provides for a Foreign Commerce Corps. This title calls for the establishment of the Department of Commerce as U.S. Government headquarters for foreign trade promotion with full responsibility for activities at home and abroad. It would create an integrated personnel structure providing rotation of personnel among headquarters in Washington, the field offices of the Department of Commerce throughout the United States, and commercial offices overseas.

It is certainly true that the present system has not yet provided an adequate degree of specialization in commercial services. While there have been some recent improvements in our commercial overseas activities they have not been strengthened to the extent required to carry out the vital and forward moving export expansion program which Commerce is now developing.

We recognize that the present dependence of the Department of Commerce upon the Department of State for handling overseas commercial services is an almost unique relationship. The return of the agricultural attachés to the Department of Agriculture in 1954 left the Department of Commerce as the only agency with substantial overseas responsibility that must still rely on the Department of State for the performance of its operational activities abroad. The list of departments and agencies with their own overseas operations includes the Department of Defense, the Department of Treasury, the Department of Agriculture, the Department of Justice, the CIA, the USIA, and ICA (to be continued under the AID), and others.

Despite the existing fractionization of U.S. overseas services, this Department continues to believe in the desirability of a unified Foreign Service. We subscribe to the view that the Ambassador, as the President's representative abroad, must be the U.S. spokesman for the interests of all Government departments. But this in no way lessens the need to provide the finest specialized commercial service possible, one which can best serve both the ambassador in the field and the Department of Commerce at home.

The capacity of the Department of Commerce to carry out the administration's program for the promotion of our foreign commerce hinges directly on improving the caliber and prerogatives of our overseas commercial services. Basic changes will be required to create a truly specialized commercial service.

We sincerely believe we can achieve these desired objectives within the framework of the Foreign Service, but some of the present "generalist" concepts applicable to the Foreign Service will necessarily have to be modified. The responsibilities of this Department require that our overseas offices be adequately trained and fully familiar with the needs of American business both here and abroad. Not only must they get to know the foreign business situation, but they must also have an intimate and extensive knowledge of the structure and practices of business in the United States. These officers, furthermore, must be interested in and available for continuing service in the commercial field.

A specialized commercial service within the regular Foreign Service must be supplemented by the resources of the Department of Commerce and American business. We plan to strengthen our organization at home so that more Department of Commerce personnel can be assigned to commercial positions overseas. We will also set up a reserve corps of businessmen upon whose services the Department can draw for temporary overseas assignment.

We have been meeting with the Department of State in a new attempt to accomplish our objectives within the present Foreign Service framework. We have agreed to establish a task force which will explore all existing problems and make recommendations to Secretary Rusk and the Secretary of Commerce for the improvements that are necessary to fulfill our needs.

This task force will concentrate on drawing up plans for commercial specialization within the Foreign Service. It will establish revised personnel policies and procedures including recruitment, assignment, promotion, training, and provision for rank and title that will give commercial officers the status they

need to do the job. Attention will also be given to strengthening the role of local employees who provide continuity of commercial service. It will deal with instructions to the field. Related administrative matters will be covered including inspection of commercial activities, local travel, representation, provision of adequate quarters for commercial personnel, expansion of trade conference work, support for Commerce operational programs, and improvements for speeding up communications. The task force will also consider assigning to the Department of Commerce the job of developing oversea commercial requirements, both for staffing and facilities. It will seek to improve budgetary practices and procedures so the commercial requirements may be most effectively presented to the Congress even though the Department of Commerce and the Department of State deal with different committees, both on the appropriations and substantive side.

The task force is being asked to submit an agreement for signature by Secretary Rusk and by the Secretary of Commerce, by October 1, 1961. We are confident and we know you would agree that if our problems are approached with the proper spirit they can be satisfactorily solved.

Title IV of S. 1729 is concerned with export credit guarantee programs to be carried out by the Export-Import Bank of Washington. The Department of Commerce has worked with the Export-Import Bank in developing programs designed to achieve the objectives of title IV. Since this title would administratively affect the Bank's operations, we would defer to its views on these provisions.

The Bureau of the Budget advises there is no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

EDWARD GUDEMAN,
Acting Secretary of Commerce.

THE SECRETARY OF STATE,
Washington, July 9, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate.*

DEAR MR. CHAIRMAN: Your letter of May 8, 1961, which was acknowledged on May 9, invited comments by the Department on S. 1729, a bill to promote the foreign commerce of the United States, and for related purposes. The Department appreciates the opportunity to express its views on this proposed legislation.

To accomplish its stated purpose, the bill proposes the following principal lines of action: First, it would authorize a number of specific measures to be undertaken by the Department of Commerce and by our commercial attachés abroad in order to improve the export promotion services which the Government offers to American businessmen seeking to develop export markets; second, it would provide a link for the Small Business Administration to participate through the Department of Commerce in promotion of export trade; third, it would establish a separate commercial service by transferring our commercial attachés and officers abroad from the operational jurisdiction of the Department of State to the Department of Commerce; fourth, it would authorize the Export-Import Bank to provide a system of export credit insurance to guarantee against commercial as well as political risks.

The Department of State is in accord with the primary objective of this bill and attaches great importance to its role and that of the Foreign Service of the United States in furthering our commercial interests abroad. The Department subscribes fully to the statement of policy in the bill:

"It is the sense of the Congress that the peace and economic well-being of the people of the world increasingly depends on wider recognition, both in principle and practice, of the interdependence of men upon an expanding exchange of goods and services. The Congress finds and declares that foreign trade represents a strong and vital element in the economic leadership of the United States among free nations."

This statement supports the Department's desire to balance our international payments through positive measures to promote exports, rather than through restrictions on trade and payments which would negate the favorable results and progress made under our postwar economic and trade policies. Moreover, the maintenance of a substantial trade surplus is related to our capability to continue programs abroad considered essential to our national interests.

As the committee will recall, the Department of State in early 1960 participated with the Department of Commerce and other Government agencies in planning and undertaking an extensive export expansion program. This program is being carried out with vigor. Indeed, several of the provisions of S. 1729 refer to improvements in our trade promotion services which were specifically included in this program and already are in effect.

Considerable improvement was achieved in our foreign trade last year, although the world competitive situation gives us no reason to lessen our efforts. In 1960, exports reached an alltime record of \$19.4 billion, an increase of 20 percent over the previous year, and our export surplus was \$4.7 billion, one of the largest in history. This was, in part, the result of successful negotiating efforts by our ambassadors, together with our economic and commercial officers, working in a unified operation to obtain relaxation of import restrictions against dollar goods. The increased emphasis and priority accorded to trade promotion by the Foreign Service contributed to this achievement.

The Department, therefore, favors those provisions in this bill which it believes would support and expand upon measures initiated under the export expansion program. The proposals in title I for expanded export promotion services generally fall in this category. For example, section 101(2) which would authorize an expansion in the number and variety of services provided by commercial attachés abroad, is in direct line with our present efforts. The proposal in paragraph (9) of this section for contracting with private firms to undertake market surveys is one which the Department has advocated. The Department recommends, however, that references to the "Foreign Commerce Corps" be deleted in title I and that the "Foreign Service of the United States of America" be substituted therefor. With regard to the other provisions in title I, the Department endorses them, but defers to the Department of Commerce for comments on provisions of primary concern to that Department.

Similarly, the proposals in title II concerning the Small Business Administration are of primary concern to other agencies with one exception: Section 201(a)(4) provides legislative authorization for the Small Business Administration to be represented at international commercial treaty and trade negotiations and related interagency committees. This provision does not appear to be necessary inasmuch as no special legislative authorization would be required to achieve the stated purpose.

Title III of the bill would establish under the Department of Commerce a separate service abroad to be known as the Foreign Commerce Corps of the United States. The Department of State opposes this proposal.

As the committee is aware, the proposal to establish a separate commercial service abroad is not new. Such a service existed in the era before 1939 but was discarded in recognition of the increasing interdependence of political, economic, and commercial matters in foreign affairs, and the cross purposes that developed in operating separate services abroad for these closely related functions. The issue of a separate service was raised a year ago when this Department furnished your committee with its considered views on the subject under cover of a letter of May 6, 1960, from the Honorable Douglas Dillon, Acting Secretary of State. It was then dismissed as being untimely even by some proponents of a separate service, because it was deemed better to improve our existing machinery than to entail the risk, confusion and problems in setting up a new and separate service. This situation still obtains and has been reinforced by the emphasis which the President has placed in enlarging foreign markets for American goods and services through the provision of added commercial representatives and facilities abroad. Furthermore, the Departments of State and Commerce have been cooperating in developing specific plans to carry out the President's instructions through a series of steps to improve the quality of commercial activities carried on through the Foreign Service Officer Corps. To this end, the Departments have established a joint task force, supported by technical working teams, which will concentrate on the problems to which Secretary Hodges will refer in his report to the committee. Under these circumstances and in the belief that we can accomplish the objectives of title III promptly and effectively, the Department strongly recommends that this title be dropped from the bill.

With respect to the remaining substantive titles in this bill, the Department favors the objective of title IV to increase the Export-Import Bank's authority for export promotion purposes, but defers to the Export-Import Bank for comment on the adequacy of the bill to further these purposes. While the Depart-

ment has no objection to the proposal in title V for utilizing local currencies generated under Public Law 480 for financing export promotion programs in foreign countries, it is our understanding that the Treasury Department questions this provision.

The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this report for the consideration of the committee.

Sincerely yours,

DEAN RUSK.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, July 13, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 852 and S. 1729, similar bills, relating to the expansion of U.S. exports.

The bill, S. 852, would, among other things, establish a Council of Export Promotion under the chairmanship of the Under Secretary of Commerce and with the Under Secretary of the Treasury as a member. The Department sees no need for the statutory designation of a council of this nature.

Both bills would amend the Export-Import Bank Act of 1945, as amended, to authorize specifically a guarantee program to assist the expansion of U.S. exports. Although the Treasury Department is in accord with the objectives of the bills, the proposed amendment of the Export-Import Bank Act would appear to have the effect of limiting the existing authority of the Bank to establish such a guarantee program. Further, in addition to the specific restrictive provisions of the proposed amendment, S. 852 would establish an overall limitation in the amount of \$500 million with respect to guarantees which could be issued and outstanding at any one time. No such mandatory restriction now limits the ability of the Export-Import Bank to issue guarantees of the type contemplated. The Bank is currently considering the establishment of a program such as that contemplated by the bills, and the limitations on the Bank's authority proposed by the bills might well complicate efforts which the Bank is presently making in discussions with insurance companies and the financial community in general.

It is understood that the Export-Import Bank is commenting on these bills in more detail. The Treasury Department is in accord with the position of the Export-Import Bank as well as the proposed amendments to its basic legislation which the Bank is suggesting to your committee as preferable to those contained in the bills, including the recommendation that the statutory life of the Bank be extended from June 30, 1963, to June 30, 1968.

Title III of S. 1729 provides for the establishment within the Department of Commerce of a new overseas service to be known as the Foreign Commerce Corps of the United States. The Treasury is of the opinion that the establishment at this time of a separate Foreign Service for the purpose proposed in S. 1729 is unnecessary. It would, in the view of this Department, be more efficient, and less costly, to utilize the existing Foreign Service system with its flexibility, and its provision for coordination between the Departments of State and Commerce in this area. The Treasury, therefore, recommends that title III of S. 1729 not be favorably considered by your committee.

The proposed amendment of section 104 of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480), is, in the opinion of this Department, unnecessary since foreign currencies which arise under that act, and which are available for the payment of U.S. expenses abroad, can now be utilized by any department or agency of the United States pursuant to provisions in appropriation acts. Under Treasury Department regulations, departments and agencies having foreign currency expenses are required to obtain the currencies needed to meet such expenses by purchase from the Treasury. It is recommended, therefore, that this provision of the bills be deleted.

No comment is offered on the other provisions of the bills, which appear to be of primary concern to other departments.

Should the proposed legislation be favorably considered by your committee, it is recommended that the amendments suggested by the Export-Import Bank and supported by this Department be made.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

ROBERT H. KNIGHT, *General Counsel.*

EXPORT-IMPORT BANK OF WASHINGTON,
Washington, D.C., May 15, 1961.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Interstate and
Foreign Commerce, U.S. Senate.*

DEAR SENATOR MAGNUSON: Receipt is acknowledged of your letter dated May 8, 1961, enclosing a copy of S. 1729 introduced by Senator Engle which has been referred to your committee for consideration and which, if enacted into law, would be known as the Foreign Commerce Act of 1961. Your courtesy in affording the Bank and opportunity to give its comments is appreciated.

This Bank is in complete agreement with the policy and purpose as defined in section 2 of the bill under review.

Title IV of the bill, captioned "Export Credit Guarantees," amends the Export-Import Bank Act of 1945, as amended (12 U.S.C. 635):

(1) by striking subsection (c) from section 2 and by inserting in lieu thereof a new subsection (c) which, although it authorizes and empowers the Bank in furtherance of its objects and purposes to guarantee, insure, and reinsure against risks of loss arising in connection with export transactions, also directs the Bank, in rigid and restrictive terms as to the methods to be employed in the issuance of its guarantees, insurance, and reinsurance, as to the descriptions of the risks to be guaranteed, insured or reinsured, and as to the statutory definitions of the terms to be employed; and

(2) extends the terminal date for the exercise by the Bank of its functions from June 30, 1963, to June 30, 1968. (The citation in the bill to "sec. 306" appears to be in error and it is believed that it should be "sec. 8").

In connection with this Bank's recently announced export credit insurance program, it is considered desirable that the Bank, in addition to its authority to guarantee, be specifically authorized by Congress, to insure and to reinsure against risks of loss arising in connection with export transactions. However, the Bank already possesses and is actively making use of guaranteeing authority broader than that provided in the bill under review and not subject to the above-mentioned restricting directives and definitions. Thus the bill, although intended to assist the Bank, actually, if enacted into law as drafted, would curtail the Bank's ability to be of maximum assistance to exporters.

Among the more specific problems raised by the language of this bill are the following:

1. The Bank is not only authorized but is required, "to the fullest extent possible," to utilize insurance companies, financial institutions and others in the issuance and operation of credit guarantees and credit insurance policies. The Bank is now engaged in contacting and in negotiating with interested insurance companies and other financial institutions in this connection. However, such a legislative mandate will render most difficult the negotiation of fair and equitable contracts between the Bank and said insurance companies and financial institutions. In this connection, a mere authorization is considered greatly to be preferred.

2. The Bank is not only authorized but is required to include in its guarantees applicable to the export of goods and related services, both the dollar costs thereof and also the local costs of the installation, facility, or project whenever the said goods or services are an integral part thereof. The degree of relationship between the foreign currency costs of a project and the export of U.S. items varies widely from case to case and the issuance or refusal to issue a guarantee with respect to the foreign currency costs of a project is a matter properly within the discretionary functions of the Directors of this Bank. A legislative mandate in this regard is considered ill advised.

3. The Bank is not only authorized but is required to provide that the terms of its political risk insurance shall be on a country basis. Such a requirement prohibits the Bank, in appropriate cases, from exercising any selectivity among products, may require a particular rate for each country and may preclude all cover for certain countries.

4. Subrogation rights are, by operation of law, rendered automatic and inure to the benefit of the U.S. Government. In many cases it may be desirable that the person to whom payment is made be required to maintain his interest, and, in his own name, to assert for the benefit of this Bank, his rights, title, and claims to the underlying currency or other assets with respect to which the payment has been made. To accomplish this desired aim, the exporter credit guarantee contracts of certain other nations customarily provide that the beneficiary, upon receiving payment, agree, at the option of the insuring agency, to assign and to subrogate to said agency all of its rights and titles, or to assert said rights and titles for the benefit of the insuring agency. It is suggested that the subrogation rights arising from payments by this Bank, should inure to the benefit of this Bank, rather than to the U.S. Government; that this Bank should have flexibility in connection therewith; and that in order to give the Bank maximum flexibility, it is preferable for its subrogation rights to be founded in and be governed by contract rather than statute.

5. Statutory definitions of terms to be employed by the Bank in its guarantee contracts and insurance policies are considered unnecessary and often unworkable. The definition of the word "goods" in the bill under review ignores the principle of U.S. origin. The definition of the word "services" in the bill eliminates services rendered in the United States or in transit and prohibits the inclusion of ocean freight. The definition of the term "political risk" fails to stipulate or to describe the actual risks normally covered by such a policy. The definition of the term "commercial risk" may overlap risks heretofore treated by this Bank, and by credit agencies of other governments, as political.

Specific and restrictive directives and definitions of the sort mentioned above are believed to be ill advised since they would interfere with the wide flexibility now possessed by the Bank to adjust its facilities to meet rapidly changing conditions of the world markets.

On February 6, 1961, in his economic address to the Congress, the President of the United States stated as follows:

"4. *Export guarantees and financing.*—Our Export-Import Bank must play an increasingly important role in our export promotion efforts. Last year the Export-Import Bank announced a widening of the facilities which it offers for extending credit to American exporters. Despite the improvements made, these facilities are not yet adequate, nor are they comparable to those offered by foreign countries, especially those offered to small- and medium-sized exporting concerns and those offered for the financing of consumer goods. I am directing the president of the Export-Import Bank, by April 1, to prepare and submit to the Secretary of the Treasury, as Chairman of the National Advisory Council on International Monetary and Financial Problems, a new program under the Export-Import Bank to place our exporters on a basis of full equality with their competitors in other countries. Also, I have asked the Secretary of the Treasury to initiate and submit by the same date a study of methods through which private financial institutions can participate more broadly in providing export credit facilities."

In response to the above quoted directive by the President, this Bank has formulated and is currently engaged in inaugurating a program designed to offer greater assistance to exporters of U.S. goods, commodities, and services, a program completely consonant with the policies and purposes as enunciated in section 2 of S. 1729. To support the Bank in this effort and further to clarify its statutory authority to embark upon the contemplated program, it is suggested that title IV of S. 1729 so amend the Export-Import Bank Act of 1945 as to authorize the Bank, without restricting procedural directives and definitions, to guarantee, insure, and, through the medium of insurance companies, banks, and other financial institutions, to reinsure against risks of loss arising in connection with export transactions.

Section 2(c) of the Export-Import Bank Act of 1945, as amended, authorizes the Bank to provide insurance in a restricted amount against restricted risks of loss.

It is believed that the additional statutory authority requested by the Bank can conveniently be accomplished, first, by striking from the Export-Import Bank Act of 1945, as amended, section 2(c) (1), (2), (3), and (4), and by

substituting therefor an authorization to issue guarantees, insurance, and reinsurance against risks of loss arising in connection with export transactions, and second: by striking from section 8 the terminal date "June 30, 1963", and by inserting in lieu thereof the terminal date "June 30, 1968." In the original Export-Import Bank Act of 1945, the date limiting this Bank in the exercise of its functions was "June 30, 1948." By successive amendments, the date "June 30, 1948," was changed first to "June 30, 1953," later to "June 30, 1958," and finally to the present date, "June 30, 1963." In order to give to the Bank continuity of operation, and to enable the Bank to continue with maximum efficiency to carry out the objects and purposes for which it was created, the additional extension is recommended.

The foregoing recommendations and suggestions correspond to the recommendations and suggestions made by this Bank in its letter dated May 15, 1961, addressed to Senator Willis Robertson, chairman of the Banking and Currency Committee, in connection with the consideration by that committee of S. 1379 (introduced by Senator Sparkman and entitled "National Export Policy Act of 1961").

It is the opinion of the Bank that if title IV of S. 1729 be revised substantially as suggested above in such a manner as to increase, rather than decrease, the flexibility now possessed by the Bank, the bill, as revised, will enable the Bank to offer to exporters of U.S. goods, commodities and services, directly and through the medium of private banking and insurance companies, export credit guarantees and export credit insurance comparable in all respects to the assistance given by the governments of other nations to their exporters.

The Bank feels that comment on the merits of the remaining sections of the proposed legislation should more appropriately come from other agencies of the executive branch of the Government more immediately concerned. Accordingly, no comment is made on title I, II, III, V, and VI of the proposed legislation other than to state that in our opinion the provisions thereof do not adversely affect the operations of this Bank.

For your consideration, we attach hereto a draft of proposed amendments to the Export-Import Bank Act of 1945, as amended.

Sincerely yours,

HAROLD F. LINDER,
President and Chairman.

TITLE IV. EXPORT CREDIT GUARANTEES

SEC. 401. The Export-Import Bank Act of 1945, as amended (12 U.S.C. 635), is hereby further amended by:

1. Striking therefrom section 2(c) (1), (2), (3), and (4) and inserting in lieu thereof the following:

"(c) (1) The Export-Import Bank of Washington, in furtherance of its objects and purposes under this Act, is authorized and empowered to guarantee, insure and reinsure against risks of loss arising in connection with export transactions.

"(2) The Bank may issue such guarantees, insurance and reinsurance to exporters, insurance companies, financial institutions, or others, or groups thereof, and where appropriate may employ any of the same to act as its agent in the issuance and operation of such guarantees, insurance and reinsurance, and the adjustment of claims arising thereunder".

2. Striking from section 8 thereof the date, "June 30, 1963", and inserting in lieu thereof the date, "June 30, 1968."



