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EXPORT EXPANSION

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HEARINGS

BEFORE THE

COMMITTEE ON COMMERCE
UNITED STATES SENATE

EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

S. 558

A BILL TO AUTHORIZE THE SECRETARY OF COMMERCE TO CARRY OUT CERTAIN PROGRAMS TO DEVELOP AND EXPAND FOREIGN MARKETS FOR UNITED STATES PRODUCTS, AND TO PROVIDE MORE EFFECTIVELY FOR ASSISTANCE IN THE FINANCING OF CERTAIN FOREIGN SALES WHICH ARE AFFECTED WITH THE NATIONAL INTEREST

MARCH 17, 18, AND 19, 1965

Serial No. 89–35

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EXPORT EXPANSION

WEDNESDAY, MARCH 17, 1965

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

The committee met at 10:28 a.m., in room 5110, New Senate Office Building, Hon. Warren G. Magnuson, chairman of the committee, presiding.

The CHAIRMAN. The committee will come to order.

There will be some other Senators on the way. We have a long list of witnesses this morning with important testimony, so we will get started. They will be in later.

The Chair has a short opening statement.

This morning the committee opens a broad inquiry into the adequacy of this country's export financing system.

These hearings are on S. 558, the proposed Export Expansion Act of 1965, which I introduced last month. Title II of that bill would establish a $500 million national interest financing fund, designed to promote vigorous and competitive financing for American exports.

But today, tomorrow, and Friday we will not be concerned so much with the cure embodied in S. 558 as with the sickness: the growing consensus among U.S. exporting industries that we are falling behind in the competition for world markets for lack of adequate, competitive financing facilities.

President Johnson recognized this lack—this "export financing gap"—in his state of the Union message, and in his balance-of-payments message he pledged to "step up our efforts to assure American industry sound and fully competitive export financing."

We are going to hear, during the next 3 days, witnesses representing an imposing cross section of our major exporting industries—aircraft, railway equipment, construction and engineering, automotive equipment, farm machinery, food machinery, book publishing, and agricultural commodities, and others.

We have asked these witnesses to document for us those deficiencies in our export financing mechanisms which affect their ability to compete in foreign commerce.

We want to know specifically, if possible, about sales which have been lost in the past and potential sales which will fail to materialize for want of financing. And we want to get an overall picture of the extent to which lost export sales are contributing to our $3 billion

Staff counsel assigned to this hearing: Michael Pertschuk.

balance-of-payments deficit. Finally, we want to know what must be done to assure—in the words of title II of the proposed bill:

that the United States is fully and effectively competitive in its financing arrangements with other countries in the development and maintenance of world markets.

(The bill follows, together with an exchange of letters between the chairman and the President of the Export-Import Bank of Washington, and agency comments:)

[S. 558, 89th Cong., 1st sess.]

A BILL To authorize the Secretary of Commerce to carry out certain programs to develop and expand foreign markets for United States products, and to provide more effectively for assistance in the financing of certain foreign sales which are affected with the national interest

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 "Export Expansion Act of 1965".

FINDINGS AND PURPOSE

SEC. 2. The Congress finds and declares that foreign trade is indispensable to the economic welfare of this Nation, that the expansion of such trade has taken on a new urgency in the present phase of the East-West confrontation, and that the legitimate role of Government in achieving such expansion is to provide where necessary aids to private enterprise. It is the purpose of this Act to provide assistance to meet certain demonstrated needs of private enterprise (1) in finding developing, and servicing markets abroad for American products and services, and (2) in financing exports of such products and services where such financing is not otherwise available and such exports are affected with the national interest.

TITLE I—TRADE DEVELOPMENT PROGRAMS

TRADE DEVELOPMENT CORPS

SEC. 101. (a) In furtherance of the purposes of this Act, the Secretary of Commerce shall undertake a program for the recruitment and training of a Trade Development Corps (hereinafter referred to as the "Corps") to consist of United States citizens who (1) are or have been in private industry or are otherwise well qualified, (2) possess experience or skills which can be effectively utilized in the operations of the Corps, and (3) can make their services available from time to time for particular trade development assignments.

(b) The function of the Corps shall be to supplement existing Federal and private programs for developing and expanding foreign markets for United States goods and services by providing a readily available source of qualified personnel for undertaking specific projects or assignments including, but not limited to—

(1) serving with a trade mission, or making in-depth studies of types of markets indicated by trade mission findings;

(2) making market analyses or studies, including (i) studies of the needs of particular countries or areas for specific products or types of products, (ii) studies of market possibilities in developing countries, and (iii) analyses of markets for products revealed by trade pattern studies as likely sales possibilities;

(3) serving with an oversea mission of the United States to supplement the work of the regular commercial or economic officers, counselors, or attachés assigned thereto;

(4) assisting in the preparation for, or the development of market leads from, industry exhibition in foreign trade centers;

(5) assisting Government personnel in developing a closer integration of foreign aid and trade; and

(6) investigating major proposed foreign purchasing of construction projects in the interest of expanding outlets for American goods and services.

Members of the Corps shall not be assigned functions involving the actual handling of service contracts. Projects for the Corps shall be developed by

the Secretary in cooperation with other interested agencies of the Government, and with trade and industry groups.

(c) Each member of the Corps shall be given a basic orientation course and such further training as the Secretary may determine to be necessary to enable such member to carry out effectively any project to which he is assigned. In providing such training the Secretary may, whenever he deems it necessary or desirable, utilize on a reimbursable basis services, facilities, and personnel of any other Government agency.

(d) The Secretary is authorized to make grants to members of the Corps accepting assignments under this section. Each such grant shall be in an amount determined by the Secretary to be sufficient to defray the necessary travel and living expenses of the member and his family and to provide a moderate compensation while engaged in carrying out his assignment, and shall be subject to such terms and conditions as the Secretary may prescribe to assure the successful completion of the assignment and to protect the interests of the United States. Payment of any such grant shall be made whenever feasible in foreign currency.

(e) In carrying out the provisions of this section the Secretary shall encourage the participation to the maximum extent feasible of private persons, firms, organizations and associations, and the Secretary is authorized to accept any contributions of funds, property, or services made thereby to be utilized for the purposes of this section.

(f) Members of the Corps accepting assignments under this section shall be exempt from the operation of sections 203, 205, 207, 208, and 209 of title 18, United States Code, but such members shall be subject to such regulations as the Secretary of Commerce shall prescribe to assure that such assignments will be carried out in a manner consistent with the public interest.

COOPERATIVE INDUSTRIAL EXPORT DEVELOPMENT PROJECTS

SEC. 102. (a) In furtherance of the purposes of this Act, the Secretary of Commerce is authorized to enter into agreements with such private organizations or associations as he determines to be qualified to carry out industrial export development projects. Any such project shall be designed to develop or expand the market in one or more foreign countries for specific articles or materials manufactured in the United States, including—

(1) the undertaking of market studies,

(2) arranging for regular or special product exhibitions and demonstrations,

(3) providing assistance to foreign buyers in locating domestic sources of supply, and to domestic manufacturers or exporters in developing a foreign market,

(4) arranging for visits of foreign trade teams, industry representatives, or other delegations in furtherance of trade objectives,

(5) arranging for the preparation and distribution of promotional or advertising materials, and

(6) the undertaking of such other activities as will further the objectives of this Act and are approved by the Secretary.

(b) In any agreement entered into under this section the Secretary may agree to make available for the execution of the project such sums, not to exceed 50 per centum of the total cost of the project, as he determines to be necessary to assure its successful completion; such sums to be made available whenever feasible in foreign currency. Each such agreement shall require such reports, and shall be subject to such other terms and conditions, as the Secretary deems necessary to protect the interests of the United States.

ASSISTANCE FOR THE ESTABLISHMENT OF SALES AND SERVICE CENTERS ABROAD

SEC. 103. (a) In furtherance of the purposes of this Act, the Secretary of Commerce is authorized to provide financial assistance to any organization or association for the purpose of establishing in any country (other than a country which is determined by the Secretary to be fully developed) one or more sales and service centers, if he finds that—

(1) the proposed center will fulfill a pressing need in the area, and there is reasonable doubt that the same can be provided without financial assistance under this section;

(2) the applicant for such assistance is fully qualified to carry out the undertaking; and

(3) the plans for the proposed center are fully adequate to meet the need without being unduly elaborate or extravagant.

(b) The amount of any financial assistance provided under this section with respect to any one sales and service center shall not exceed 50 per centum of the total development cost thereof.

(c) No financial assistance shall be made available with respect to any sales and service center under this section, unless the applicant agrees—

(1) that during any period in which the United States has a financial investment in such center it will (i) make the facilities of such center available to United States business firms on equal terms and conditions, (ii) fix reasonable charges for the use of the facilities and services of such center in accordance with schedules or standards approved by the Secretary, (iii) pay to the United States from any net profits accruing from the operation of such center a reasonable return, as determined by the Secretary, on the capital contributed by the United States, and (iv) comply with such other reasonable terms and conditions as the Secretary shall prescribe for the protection of the interests of the United States, and

(2) that in the event the United States receives a full return on its financial investment in such center, it will comply with such terms and conditions as the Secretary shall prescribe to assure that such center will not be operated in a manner which is inconsistent with the purposes of this Act.

(d) The Secretary may make payments pursuant to any contract for financial assistance under this section at such times and in such manner as may be specified in the contract; such payments to be made whenever feasible in foreign currency.

(e) As used in this section—

(1) the term "sales and service center" means one or more buildings for the display and sale of particular types or broad categories of articles or materials manufactured in the United States and for the servicing and repair thereof, and may include management and sales offices, together with facilities for the stocking of parts, for the training of personnel, and for such other or related activities as may be approved by the Secretary; and

(2) the term "development cost" means the cost of constructing, purchasing, improving, altering, or repairing a building or buildings for use as a sales and service center, purchasing and improving the necessary land, and providing fixtures, equipment, and facilities necessary thereto.

REPORTS

SEC. 104. The Secretary of Commerce shall make a detailed annual report to the Congress of his operations under this title.

USE OF FOREIGN CURRENCIES

SEC. 105. In carrying out the provisions of sections 101, 102, and 103 of this Act, the Secretary of Commerce may utilize, with the approval of the President and in such amounts as may be specified from time to time in appropriation Acts, foreign currencies or credits owned by or owed to the United States which are, under applicable agreements with the foreign country concerned, available for the use of the United States Government.

AUTHORIZATION FOR APPROPRIATIONS

SEC. 106. There are hereby authorized to be appropriated such sums, to remain available until expended, as may be necessary to carry out the provisions of this title.

TITLE II—EXPORT FINANCING ASSISTANCE

AMENDMENTS TO THE EXPORT-IMPORT BANK ACT OF 1945

SEC. 201. (a) Section 2(a) of the Export-Import Bank Act of 1945 is amended by inserting after the second sentence the following: "In carrying out such objects and purposes the Bank shall (1) cooperate with private capital so as to further the expansion of exports of products and services from the United States

and its possessions, and (2) assure, within its statutory limitations, that the United States is fully and effectively competitive in its financing arrangements with other countries in the development and maintenance of world markets."

(b) Section 2 of such Act is further amended by adding at the end thereof the following:

"(d) (1) Notwithstanding any other provision of this Act, it is the further policy of the Congress that the Bank shall, in utilizing such funds as may be appropriated pursuant to section 6(b)(2), assist in financing United States exports which can reasonably be expected to affect the national interest.

"(2) In furtherance of its objects and purposes and of the policy of the Congress as declared in paragraph (1) of this subsection, the Bank is authorized and empowered to utilize such funds as may be appropriated pursuant to section 6(b)(2) to guarantee, insure, coinsure, reinsure, make loans, and otherwise assist in the financing of United States exporters, and foreign exporters doing business in the United States, against political and credit risks of loss arising in connection with United States exports which can reasonably be expected to affect the national interest; to establish fractional reserves in connection therewith of not less than 25 per centum of the related contractual liability; and to purchase, discount or rediscount obligations or participations therein of foreign obligors in connection with those United States exports which can reasonably be expected to affect the national interest. The terms on which any guarantee, insurance or other financing assistance is provided under this subsection shall be determined by the Board of Directors of the Bank having due regard to the purposes of this subsection and may be set at less than prevailing commercial levels. The Bank may issue and service the guarantees, insurance, coinsurance and reinsurance herein authorized as provided in subsection (c)(2) of this section.

"(e) The obligations of the Bank heretofore or hereafter issued, whether in the form of guarantees, insurance or otherwise, shall be considered contingent obligations of the United States Government backed by its full faith and credit."

(c) Section 3(d) of such Act is amended by inserting "(1)" immediately following "(d)", and by adding at the end thereof a new paragraph as follows:

"(2) There is hereby established an Interdepartmental Advisory Committee on National Interest Financing which shall consist of the following members: The Secretary of Commerce, who shall serve as Chairman, the Secretary of State, the Secretary of the Treasury, the Secretary of Defense, the Secretary of Agriculture, the President of the Export-Import Bank of Washington, and the Administrator, Agency for International Development. Each member of the Committee may designate an officer of his department or agency to act for him as a member of the Committee. The Committee shall when requested by the Bank advise with and make recommendations to the Bank with respect to the national interest involved in specific proposals for the extension of financial assistance under section 2(d). The Committee shall also establish such guidelines as it may deem advisable to assist the Bank in determining the national interest with respect to any particular category or categories of proposals."

(d) Section 6 of such Act is amended by inserting "(a)" immediately after "SEC. 6.", and by adding at the end thereof a new subsection as follows:

"(b) (1) To carry out the purposes of section 2(d), the Secretary of the Treasury is authorized and directed, upon appropriation of funds for such purpose, to purchase from time to time such special obligations as the Bank may issue in an amount not to exceed $500,000,000 outstanding at any one time.

"(2) For the purpose of enabling the Secretary of the Treasury to purchase special obligations of the Bank pursuant to paragraph (1) of this subsection, there is hereby authorized to be appropriated, at any time without fiscal year limitation, $500,000,000 to remain available until expended. Any funds paid to the Treasury by the Bank as repayment on account of the principal of such special obligations shall continue to be available for the purchase of additional special obligations by the Secretary of the Treasury under paragraph (1) of this subsection. Payment of interest by the Bank on account of any special obligations purchased under such paragraph (1) shall be covered into the Treasury as miscellaneous receipts.

"(3) The obligations issued by the Bank to the Secretary of the Treasury pursuant to paragraph (1) of this subsection shall be special obligations, payable by the Bank only out of its net receipts from its operations under section 2(d), and shall bear such interest and maturities as may be determined by the Board of Directors of the Bank with the approval of the Secretary of the Treasury."

(e) Section 7 of such Act is amended by striking out the period and inserting in lieu thereof the following: ", except that this limitation and the limitation upon the aggregate amount of guarantees and insurance as provided in section 2(c) shall not be applicable to guarantees, insurance or other financial assistance provided pursuant to section 2(d)."

DEPARTMENT OF COMMERCE,
April 2, 1965.

Hon. WARREN C. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in further reply to your request for the views of this Department with respect to S. 558, a bill to authorize the Secretary of Commerce to carry out certain programs to develop and expand foreign markets for U.S. products, and to provide more effectively for assistance in the financing of certain foreign sales which are affected with the national interest.

Title I of the bill would create three new cooperative programs between the Government and private enterprise in the general field of export expansion: A trade development corps; cooperative industrial export development projects; and assistance for the establishment of sales and service centers abroad. These programs would be administered by the Secretary of Commerce.

Title II of the bill would provide for amendments to the statement of purposes in the Export-Import Bank Act of 1945 and for the creation of a special fund for financing exports "where such financing is not otherwise available and such exports are in the national interest."

The Department of Commerce is, of course, vitally interested in all necessary and practicable programs by which the export trade of the United States can be enlarged. President Johnson in his recent balance-of-payments message called for a "redoubling of our efforts to promote exports" and said that "we will step up our efforts to assure American industry sound and fully competitive export financing."

Since S. 558 is intended to facilitate these objectives, I am fully in accord with its underlying purposes. However, I am unable to conclude that enactment of this legislation would be appropriate at this time.

With respect to title I, my principal reservation centers on serious doubt that the sales results would justify the costs involved. In particular, I have the following doubts about the feasibility and usefulness of these programs:

(1) In the case of the trade development corps, the extent to which qualified market analysts could be recruited for the work of the Corps.

(2) In the case of the cooperative industrial export development projects, the extent to which industrial firms with competing products would be willing to join in cooperative promotional programs, as agricultural producers have done; also, whether business groups would be willing to invest the necessary funds for this kind of effort to expand foreign markets.

(3) In the case of the sales and service centers, whether the business community would be sufficiently interested to participate in this new approach to oversea marketing; whether the sales results would justify the costs involved; the difficulties involved in equitably allocating the space available in such centers among U.S. firms which have already penetrated foreign markets to some degree through their own efforts by providing special U.S. Government assistance to new entrants to the same markets.

(4) In general, I question the consistency of launching these new and untried programs, which would require an immediate dollar outflow, at a time when we are asking American business and banks to undertake a program of voluntary actions to help improve our current balance-of-payments situation.

The foregoing problems may not be insuperable, but they cast sufficient doubt on the efficacy of the title I proposals to make expenditure of Government funds overseas on a trial of these proposals seem undesirable at the present time.

With respect to title II, I believe that it is possible to increase desirable exports by providing more liberal and flexible export credit through the Export-Import Bank. Since such improvements as are needed in the provision of credit can be accomplished through a more flexible use of existing facilities, I do not feel it is necessary to proceed with a special fund at this time. In view of the Bank's stated intention to liberalize its credit practices and policies within the framework of present statutory authority, I would not favor new legislation

until there has been a fair test of the Bank's ability to meet the need adequately under existing law.

I do feel that fast-growing foreign trade competition and the need for additional measures to overcome our balance-of-payments difficulties call for giving more weight to our long- and short-term commercial objectives in our financing decisions. However, recently there have been fruitful discussions and consideration of these problems between myself, Secretary Dillon, and President Linder of the Export-Import Bank, and the Bank has proposed to strengthen its consultative arrangements respecting both general loan criteria and specific transactions. I welcome these proposals and believe these arrangements will obviate the need for a statutory committee.

I do not, therefore, believe it is desirable to enact title II of this bill.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of this report from the standpoint of the administration's program.

Sincerely yours,

(Signed) JOHN T. CONNOR,
Secretary of Commerce.

GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE,
Washington, D.C., April 1, 1965.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: You have requested a report containing the views of the Department of Defense on S. 558, 89th Congress, the proposed Export Expansion Act of 1965.

The bill would provide for assistance to meet needs of private enterprise in finding, developing, and servicing markets abroad for American products and services by (1) directing the Secretary of Commerce to recruit and train a Trade Development Corps which would provide qualified personnel to perform specific projects or assignments supplementing existing Federal and private programs for developing and expanding foreign markets for U.S. goods and services, (2) authorizing the Secretary of Commerce to enter into agreements with such private organizations or associations as he determines to be qualified to carry out industrial export development projects, (3) authorizing the Secretary of Commerce to provide financial assistance to any organization or association for the purpose of establishing in any country (other than a country which is determined by the Secretary to be fully developed) one or more sales and service centers, (4) amending the Export-Import Bank Act of 1945 by adding a direction to the Bank to cooperate with private capital so as to further the expansion of exports of products and services and to assure, within its statutory limits, that the United States is fully and effectively competitive in its financing arrangements with other countries in the development and maintenance of world markets, (5) stating the policy of the Congress that the Bank utilize funds to be appropriated to assist in financing U.S. exports which can reasonably be expected to affect the national interest, and (6) adding appropriately to the authority of the Bank to permit it to carry out this policy. In addition, the bill would establish an Interdevelopmental Advisory Committee on National Interest Financing to advise the Bank, upon its request, with respect to the national interest involved in specific proposals for the extension of financial assistance under this new authority. Arrangements are also made to provide for necessary appropriations and other fiscal arrangements.

Since S. 558 is principally directed to the Department of Commerce and the Export-Import Bank, the Department of Defense defers to the views of those agencies with respect to the need for such legislation.

The Department of Defense would, however, like to take advantage of this opportunity to make some observations concerning the role of this Department in furthering the expansion of exports. During the past 4-year period, some $6 billion of military equipment has been ordered by foreign countries either through the Department of Defense or directly from U.S. industry. In making sales from the Department of Defense stocks or from new procurement, and in facilitating direct sales by industry, we have proceeded on the basic policy that credit should be extended only to countries which can reasonably be expected to meet their credit obligations. Such sales involve risks, which while reasonable from our

point of view in the national interest, are viewed by private capital as too risky and thereby involve terms not normally available from private capital for such risks. Accordingly, Government financing has proven to be necessary in order to expand those military exports which are in the national interest and are consistent with our political, economic, and military objectives.

Within the Government, only two sources of funds are available to finance military exports. A limited amount of funds is available under the Foreign Assistance Act of 1961, as amended, consisting of the assets of the military credit sales revolving fund and limited amounts of new obligational authority which may from time to time be diverted from the military assistance grant program. The Export-Import Bank has been supplementing these funds through credits from its own resources in those instances in which the Bank is able to find reasonable assurance of repayment as required by its statute.

The President's legislative program includes three significant proposals relating to the authority of the Department of Defense under the Foreign Assistance Act of 1961, as amended, which would facilitate a further expansion of exports of military equipment. Specifically, the Congress has been asked to make the following amendments to the Foreign Assistance Act: First, to authorize the Department of Defense to sell evidences of indebtedness received from foreign countries as a result of military credit sales to either the Eximbank or private banking institutions; second, to authorize the Department of Defense to guarantee loans made by the Eximbank without charging the Eximbank a guarantee fee; and, third, to provide $50 million of new obligational authority to finance or guarantee those military credit sales which, for various reasons, cannot be handled by Eximbank or private banking institutions.

It would appear that with the amendments to the Foreign Assistance Act herein mentioned and with the continued support of the Export-Import Bank within the framework of its existing charter, the military export sales program of the Department of Defense will be adequately financed.

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,

L. NIEDERLEHNER,
Acting General Counsel.

DEPARTMENT OF JUSTICE,
OFFICE OF THE DEPUTY ATTORNEY GENERAL,
Washington, D.C., April 12, 1965.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR SENATOR: This is in response to your request for the views of the Department of Justice concerning the bill (S. 558), to authorize the Secretary of Commerce to carry out certain programs to develop and expand foreign markets for U.S. products, and to provide more effectively for assistance in the financing of certain foreign sales which are affected with the national interest.

The purpose of the bill, which would be cited as the Export Expansion Act of 1965, is to find, develop, and service markets abroad for American products and services, and finance exports of such products and services where such financing is not otherwise available and such exports are affected with the national interest. In order to achieve this purpose, the bill would provide for a Trade Development Corps to be recruited and trained by the Secretary of Commerce. The function of the Corps would be to supplement existing Federal and private programs for developing and expanding foreign markets, which would include serving with trade missions abroad, and assisting Government personnel generally in foreign programs.

The Secretary of Commerce would be authorize to enter into agreements with private organizations or associations which he considers qualified to carry out industrial export development projects, and to give financial assistance up to 50 percent of the cost of such projects. Such projects would include the undertaking of market studies, arranging trade exhibitions, assisting foreign buyers, arranging for visits of foreign industrial teams, and preparing and distributing advertising material. The Secretary would also be authorized to provide financial assistance to organizations or associations establishing sales or service centers in foreign countries for the display and sale of U.S. products and for

their servicing and repair, such assistance not to exceed 50 percent of the cost thereof.

Also, the bill would amend the Export-Import Bank Act of 1945 by authorizing the Export-Import Bank to make loans to assist exporters, and to guarantee and insure exporters against political and credit risks in connection with exports. The amount of $500 million would be appropriated for this purpose. An Interdepartmental Advisory Committee on National Interest Financing, consisting of several Cabinet members and other top officials, would be created to advise and make recommendations to the Export-Import Bank with respect to the national interest involved in specific proposals.

The Department of Justice defers to the Department of Commerce and other agencies more directly concerned as to the enactment of this legislation. However, we have a reservation concerning the antitrust aspects of this legislation. In the employment of persons and associations from private industry, the incentives given to cooperation among business interests and the enlistment of Government aid to private business, there may be a claim of Government approval of activities which could be in violation of the antitrust laws. It may even be claimed that the law could be construed to exempt from the antitrust laws the activities of private associations undertaking industrial export development projects. Cooperation by business firms engaged in export trade is now strictly limited to the terms of the Webb-Pomerene Export Trade Act (15 U.S.C. 61–65).

Section 101(f) of the proposal would exempt members of the Trade Development Corps from the conflict-of-interest prohibitions contained in sections 203, 205, 207, 208, and 209 of title 18, United States Code. These provisions are the product of a comprehensive revision enacted into law in 1962 whereby Congress sought to balance two basic requirements of the Government: (1) to facilitate the recruitment of qualified persons by removing unrealistic and unfair restrictions upon their private business activities, and (2) to provide conflict-of-interest standards that would adequately protect the Government and assure the confidence of the public in the integrity of Government action. This Department is not aware of any reason why these conflict-of-interest standards enacted by Congress barely 3 years ago should not apply to members of the proposed Trade Development Corps. Moreover, since the bill seems to contemplate that members of the Corps be employed on a short-term basis, it is likely that they could be given appointments or assignments of such limited duration as would make them subject only to those conflict-of-interest restrictions applicable to "special Government employees" as defined in 18 U.S.C. 202. In general, a "special Government employee" means one who is employed to perform temporary or intermittent duties for less than 130 days a year. Thus, it would seem that members of the Corps may qualify as "special Government employees" and accordingly be subject only to the limited restrictions applicable to such employees. These restrictions, which are included in sections 203, 205, 207, 208, and 209 of title 18, United States Code, provide conflict-of-interest standards which, while adequate to protect the Government, are not inconsistent with the needs of persons whose principal employment is outside the Government and who cannot be expected to accept the limitations upon private activity which are required of regular Government employees.

In short, it is our view that, if the bill is to be enacted, the members of the Trade Development Corps should be subject to the conflict-of-interest statutes.

It is also our view that it is unlikely that the application of these statutes to them would result in the imposition of an unreasonable or unfair burden upon them.

The Bureau of the Budget has advised that there is no objection to the submission of this report from the standpoint of the administration's program.

Sincerely,

RAMSEY CLARK,
Deputy Attorney General.

DEPARTMENT OF STATE,
Washington, D.C., April 6, 1965.

Hon. WARREN G. MAGNUSON,
U.S. Senate,

DEAR MR. CHAIRMAN: This letter is in reply to your request for this Department's comments on S. 558, a bill to authorize the Secretary of Commerce to carry out certain programs to develop and expand foreign markets for U.S. products. The Department of State, of course, strongly supports the purposes of S. 558.

We agree fully with the proposed finding of the Congress "that foreign trade is indispensable to the economic welfare of this Nation." Like the other departments and agencies of the Government, we are strongly committed in the effort called for by President Johnson in his message of February 10, 1965, to maintain the rapid rise in U.S. commercial exports which has taken place since 1960.

With respect to "Title I—Trade Development Programs," the Department of State would have no objection to the programs proposed under this title II if effective programs along those lines are considered practicable. We understand, however, that the Secretary of Commerce has indicated doubts about the feasibility and usefulness of these programs and we would defer to his judgment on this question.

With respect to "Title II—Export Financing Assistance," we welcome your interest in assuring that financing available for our exports will be fully competitive. However, we believe this objective can be achieved under present statutes and without a new special fund.

The Bureau of the Budget advises that from the standpoint of the administration's program there is no objection to the submission of this report.

Sincerely yours,

DOUGLAS MACARTHUR II,
Assistant Secretary for Congressional Relations.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., April 5, 1965.

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. 558, "To authorize the Secretary of Commerce to carry out certain programs to develop and expand foreign markets for U.S. products, and to provide more effectively for assistance in the financing of certain foreign sales which are affected with the national interest."

Title I of the proposed legislation would provide for certain trade development programs to be carried out under the guidance of the Secretary of Commerce by means of a Trade Development Corps, agreements with private organizations or associations to develop or expand industrial development projects, and governmental assistance in the establishment of sales and service centers abroad. Title II would authorize a new program of export financing assistance through the Export-Import Bank and would establish an Interdepartmental Advisory Committee on National Interest Financing to advise with and make recommendations to the Bank with respect to the national interest involved in specific proposals for the extension of financial assistance.

The Department of Commerce presently carries on programs designed to expand the foreign commerce of the United States, including the furnishing by specialists of information and service with respect to foreign trade, and the establishment of trade centers, commercial trade fairs, and business information centers in foreign countries. In addition, work in this areas is performed by the Agency for International Development and the Department of State. Also the Export-Import Bank has for many years been engaged in various programs to expand U.S. exports. These activities include insurance and guarantee programs undertaken in cooperation with insurance companies and commercial banks, as well as direct loans to foreign borrowers. The programs that would be authorized by the proposed legislation would appear to overlap and duplicate these programs.

The President, in his message of February 10, 1965, reviewing the international balance of payments and gold position, stated: "We will step up our efforts to assure American industry sound and fully competitive export financing." With this objective in view, the need for additional financial facilities or legislative authority has been carefully reviewed within the executive branch. It has been determined that no new legislation is presently required and that sound and fully competitive export financing can be assured within existing authority and within funds already available and those requested by the President for the next fiscal year.

It is the intention of the administration to use existing authority and financial availabilities in a flexible manner, giving most careful attention to closing any gaps which may exist in the export financing field and to supporting exports of U.S. products which have particular promise for creating or expanding sound, continuing, commercial export markets. Existing coordinating and consultative machinery is adequate to perform effectively the functions which would be assigned to the proposed Interdepartmental Advisory Committee on National Interest Financing.

In view of the above, the Treasury Department would be opposed to the proposed legislation.

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,

FRED B. SMITH,
Acting General Counsel.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., February 24, 1965.

B–145124.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce, U.S. Senate

DEAR MR. CHAIRMAN: Your letter of January 25, 1965, requests our comments on S. 558.

The purpose of the bill is to authorize the Secretary of Commerce to carry out certain programs to develop and expand foreign markets for U.S. products, and to provide more effectively for assistance in the financing of certain foreign sales which are affected with the national interests. The bill involves a matter of policy for determination by the Congress and, therefore, we make no recommendation concerning its enactment. However, we offer the following comments for your consideration.

Sections 101, 102, and 103 of the proposed act contemplate entering into certain agreements on a noncompetitive basis which will involve the U.S. Government sharing in the cost of certain activities with the possibility of it also sharing in certain revenues. So as to preserve the right of the Government to examine the financial activities arising under these contracts, it is suggested that a provision be made for right of access to records for the purpose of audit and examination of the costs incurred or income arising under any contract. Such provisions are found in many assistance-type programs. For example, see 42 U.S.C. 2522 concerning programs under the Area Redevelopment Act. The following language is suggested to achieve this purpose:

"Any contract or agreement, other than for personal services, entered into pursuant to sections 101, 102, and 103 of this act on a basis of other than competitive bidding shall provide that the Secretary and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access for the purpose of audit and examination to any books, documents, papers, and records that are pertinent to the activities contemplated or carried out pursuant to such contract or agreement."

Secion 105 appears to make it necessary that the amounts of foreign currency to be used be specified in the annual appropriation acts. For a number of years, there has been included in an annual appropriation act a general provision which authorizes any agency with a dollar appropriation to purchase foreign currencies from the Treasury and then to use such foreign currencies for the purpose intended by the appropriation (for example, see sec. 507 of the Public Works Appropriation Act, 1964, Public Law 88–511). Consistent with such provision and with section 1415 of the Supplemental Appropriations Act, 1953, 31 U.S.C. 724 and in view of the U.S. current balance-of-payments problem, we believe easier administration and clearer direction would be provided by making section 105 read as follows:

"In carrying out the provisions of sections 101, 102, and 103 of this act, the Secretary of Commerce shall, from funds appropriated to carry out the provisions of this title, acquire and utilize foreign currencies or credits owned by or owed to the United States to the maximum extent possible."

We believe such a provision would leave no doubt as to the intention of the Congress that foreign currencies should be utilized to the maximum extent to

relieve the outflow of dollars and this method of acquiring foreign currencies would be in conformity with present budget and appropriation processes. (See committee print, report to the Committee on Appropriations, U.S. Senate, on control over the use of foreign currencies, prepared by Bureau of the Budget, January 1960.)

The proposed wording directing the utilization of foreign currency is not entirely new. For example, the last sentence of section 105 of the Agricultural Trade Development and Assistance Act of 1954, as amended (commonly called Public Law 480), 7 U.S.C. 1705, provides:

"The President shall utilize foreign currencies received pursuant to this title in such manner as will to the maximum extent possible reduce any deficit in the balance of payments of the United States."

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

EXPORT-IMPORT BANK OF WASHINGTON,
PRESIDENT AND CHAIRMAN,
Washington, D.C., March 24, 1965.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate.

DEAR SENATOR MAGNUSON: In replying to your request for our views on S. 558, we are limiting our comments to title II which is the part of the bill which directly affects the Export-Import Bank. Title II would amend the Export-Import Bank Act (1) by altering the statutory criteria which have historically guided the Bank in carrying out its objects and purposes, (2) by directing the Bank, notwithstanding any other provision of the act, to finance exports which affect the national interest, and (3) by authorizing the utilization of such funds as may be appropriated up to $500 million for the aforesaid financing.

Since 1934, the Export-Import Bank has been dedicated to financing and facilitating the foreign trade of the United States. As the U.S. position in world trade has changed over the years since 1934, so too have the operations of the Bank. Thus, in recent years, as our balance-of-payments problems have increased, the Bank his intensified its activities in assisting our exports. It has instituted an export insurance and guarantee program which, when taken together with the traditional financing of the Bank, affords a comprehensive medium to American exporters for financing their sales abroad. True it is that in certain instances a particular company may lose a sale to a foreign competitor who is supported by his government. But from the standpoint of our overall export trade the Bank is a most effective instrument. To improve its facilities and to make them more competitive, however, the Bank is constantly alert to the necessity of change in its programs. It is continually making alterations which serve to liberalize and make its operations more flexible. Indeed, the Bank is not content merely to assist U.S. exporters in instances in which they are faced with foreign competition on credit terms. Rather the Bank's purpose is that no sale of a U.S. export shall be lost for want of adequate financing on a reasonably sound basis whether or not there is foreign competition.

Although the Board of Directors of the Bank agrees that the United States should take all reasonable steps to expand our export trade, it does not believe that title II of S. 558 provides a sound basis for such expansion. The extension of credit to countries beyond their ability to pay serves to deplete our resources and does not improve our balance-of-payments position. Moreover, the recipients of such credits are clearly not benefited when encouraged to assume liabilities beyond their means. Nor can an export policy based on such type of credit be maintained for any extended period of time.

In his message of February 10, 1965, on the international balace of payments and gold position of the United States, President Johnson said: "We will step up our efforts to assure American industry sound and fully competitive export financing." The executive branch is of the opinion that no additional monetary facilities or legislative authority is needed at this time to achieve the President's purpose. The Board of Directors of the Bank is in accord with this view and is determined to make every effort to carry out the intention of President Johnson. We believe that by continuing our efforts, within the framework of the

existing statute, to meet the ever-changing needs of our exporters, the Export-Import Bank will be able to serve best the longrun interests of our foreign trade.

Since the Bank is a governmental and not a private operation, it must act only in the national interest. The Directors, as well as the staff, see that this is true in practice as well as theory by endeavoring to operate the Bank as a public and not a private institution. As a corollary, of course, the Export-Import Bank is not operated on commercial bank standards. We adhere rigidly to the provisions of our present act which requires that we should supplement and encourage and not compete with private capital. This means that those transactions which we do engage in are those which are too risky for private capital and require terms not available in the private market.

In the light of the foregoing, I want formally to state that the Export-Import Bank opposes the proposed amendment of the Export-Import Bank Act as is provided in title II of S. 558.

Before closing, however, I would express my personal appreciation for your interest in the Export-Import Bank and your expression of confidence in the management of the Bank as evidenced by your proposal to vest in the Bank the administration of the function and funds which would be authorized by S. 558 if enacted.

The Bank has been advised by the Bureau of the Budget that, from the standpoint of the administration's program, there is no objection to the submission to you of these comments.

Sincerely yours,

(Signed) HAROLD F. LINDER.

APRIL 5, 1965.

Mr. HAROLD F. LINDER,
President and Chairman,
Export-Import Bank of Washington,
Washington, D.C.

DEAR MR. LINDER: Your comments on S. 558 were necessarily written before you had an opportunity to consider the testimony of the business and banking witnesses who appeared before the committee during the first 3 days of hearings.

Now, as the committee proceeds in its consideration of S. 558, it would be very helpful to us if you would amplify the comments which you made in your letter in the light of the specific issues and questions raised in the committee hearings.

I have instructed the staff of the committee to make available to you and your staff the transcript of the hearings, together with copies of additional letters and statements which have been submitted for the record.

In particular, the committee would like to have your views on the following specific questions:

1. You state in your letter that "* * * the Bank's purpose is that no sale of a U.S. export shall be lost for want of adequate financing on a reasonably sound basis whether or not there is foreign competition."

We have had testimony from major U.S. companies, industry associations, and banks claiming that hundreds of millions of dollars of exports are being lost for want of adequate financing. Is it your contention that these potential exports are unsound and that the private banks and companies that wish to do the exporting, and are willing to finance their portions of it, intend to engage in unsound business?

2. You state in your letter that you do not "* * * believe that title II of S. 558 provides a sound basis for such expansion." You go on to say "The extension of credit to countries beyond their ability to pay, serves to deplete our resources and does not improve our balance-of-payments position. Moreover, the recipients of such credits are clearly not benefited when encouraged to assume liabilities beyond their means."

We have had testimony to the effect that you have turned down financing on the grounds that the countries could not afford to buy the items involved only to have other developed countries whose industries compete with ours sell the items which we had refused to finance. We have also had testimony that you have refused political risk coverage in instances where you believed that dollars would not be available at the very time that the Agency for International Development was extending assistance in dollars, including balance-of-payments loans, which in effect made such dollars available. In these circum-

stances, our exporters say that your policies have led to the financing through the Agency for International Development of the exports of other countries to the aid-recipient countries and have, in effect, denied those export markets to our own businessmen. I would appreciate your comments on this charge.

3. We have received testimony to the effect that the Export-Import Bank will provide export financing to some countries in some years, and will sharply restrict or eliminate such financing in other years. The complaint is that companies cannot engage in market development under such circumstances. They claim that to develop a market in a country takes long, sustained effort and that credit must be consistently available or the effort should not be undertaken at all, or must be discontinued when credit is no longer available.

We would appreciate an explanation of why the Export-Import Bank will shut off credit to a company after it has undertaken, with the initial assistance of your export financing, a major effort to develop a market in a country? How do you reconcile such decisions of the Export-Import Bank with the objectives of the export expansion program of the United States?

4. In your letter you stated, "Since the Bank is a governmental and not a private operation, it must act only in the national interest." You then went on to state that you endeavor "* * * to operate the Bank as a public and not a private institution." You state, "As a corollary, of course, the Export-Import Bank is not operated on commercial bank standards."

We have been advised that you operate on the basis of exposure limits in the same manner as a private, commercial bank would operate; and that regardless of national commercial interest, you will turn down export financing if you believe that in accordance with those exposure limits, additional credit should not be extended to a country so as to maintain the principle of spreading your risks. Is it appropriate to apply exposure and transaction limits to situations in which the country involved can and does proceed to purchase the goods from competing companies in another developed country? Inasmuch as the countries to which you deny credit to protect your currently outstanding loans can and will impair their ability to pay by borrowing from others, are you not, in effect, shutting off U.S. exports without improving your own assurance of repayment? Moreover, the committee has received testimony to the effect that Eximbank will refuse to guarantee medium term credits in which the loans would be actually extended by private banks, on the grounds that the Eximbank is already overloaned in that country, only to have Eximbank make direct project loans in substantially greater amounts several months later to the same country.

5. Inasmuch as you state that the Bank "must act only in the national interest," do you consider as being in the "national commercial interest" the financing of exports from the United States in circumstances where the initial seller obtains an advantage in future sales? Does the Bank make exceptions in the application of exposure and transaction limitations for those kinds of items which confer upon the U.S. company an advantage in making further sales in that country?

6. The committee has been advised that you have justified turning down financing in certain countries on the grounds that your charter requires that you have "reasonable assurance of repayment." We have been advised that this also explains in part the reasons for maintaining exposure limits.

It is my understanding that the Agency for International Development is also required in its loans to have "reasonable assurance of repayment." They apparently do not operate under exposure limits nor take a narrow view of what can be done in a given country when it appears to be in the national interest of the United States to do so. What is it that requires of you a totally different interpretation of this same language which I understand appears in the charters of all Government lending institutions?

7. You state in your letter "We adhere strictly to the provisions of our present act which requires that we should supplement and encourage and not compete with private capital. This means that those transactions which we do engage in are those which are too risky for private capital and require terms not available in the private market."

It has been charged that the Export-Import Bank has, at times, competed with private financial institutions for business in instances where the risks appeared slight; and has failed to assist private business in financing exports where indeed the tranactions were risky for private capital but where the private banks and exporters proceeded, without the assistance of Export-Import Bank, to extend credits so that the export business could be done. The question is whether, in fact, there are instances in which our private commercial banks and our exporters

are willing to undertake financing risks which they regard as reasonable in the quest for export business, but must do so without Export-Import Bank guarantees because you regard it as too risky? Are your standards of risktaking more conservative than those of private companies and private banks?

8. While you have stated as indicated above that the Bank's purpose is that no sale of a U.S. export shall be lost for want of adequate financing whether or not there is foreign competition, it has been charged that you will not provide fully competitive financing in instances where competing companies from other countries offer more favorable rates and terms. Please advise us whether you are prepared to compete on the basis of interest rates and terms so that American companies can be fully competitive with respect to financing.

9. The National Constructors Association, representing the engineering construction industry of the United States, indicated that they could bring back to the United States a substantial portion of the $2 billion of contract awards in 1964 which are being performed by overseas subsidiaries located in other developed countries because export financing is more easily and fully available in those countries. In the light of our country's urgent balance-of-payments problem, what do you intend to do to make fully competitive export financing available to the engineering construction industry so that they will operate out of the United States and purchase the machinery and services required in the United States?

10. The committee received testimony from the Consulting Engineers Council that "the United States is the only major country that does not finance engineering services through the Export-Import Bank machinery." They point out that consulting engineering services can be an important source of income to the United States and is of even greater importance in steering equipment purchases to the United States.

We would appreciate an explanation of why the Export-Import Bank has not to date approved any loans or guarantees for consulting engineering services?

11. It has been pointed out to the committee that the present charter of the Export-Import Bank authorizes the rediscounting of loans made by private banks in extending export credit. Why has the Export-Import Bank not implemented its authority to rediscount private loans thus far, and what are its future intentions in this regard?

12. In your letter you quote from the President's balance-of-payments message, which was transmitted to the Congress February 10, in which President Johnson said, "We will step up our efforts to assure American industry sound and fully competitive export financing."

Inasmuch as the substance of the testimony presented to this committee was that, at the present time, our export financing is not fully competitive, could you inform us as to the specific changes in policy and program you intend to put into effect to implement the President's statement.

Sincerely yours,

WARREN G. MAGNUSON, *Chairman.*

EXPORT-IMPORT BANK OF WASHINGTON,
Washington, D.C., May 7, 1965.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MAGNUSON: Your letter of April 5, 1965, asked that I amplify the comments made in my letter of March 24 in the light of the issues and questions raised in the committee hearings on S. 558, and that I express my views with respect to the 12 questions set forth in your letter.

Since its creation in 1934, the Export-Import Bank has authorized loan, guarantee, and insurance transactions aggregating over $18 billion. In so doing, it has assisted hundreds—yes thousands—of U.S. exporters—large and small, manufacturers and merchant exporters, and sellers of capital equipment, agricultural commodities and consumer goods, as well as of engineering, construction, and shipping services. In view of so extensive an operation, it is not surprising that complaints will be heard from time to time from those who believe they have lost prospective export sales for want of adequate assistance from the Bank. The hearings conducted by your committee have afforded such persons the opportunity to voice their complaints. What is surprising, perhaps, is that their number was so relatively small. Nonetheless, we welcome the oppor-

tunity to answer and comment on the questions you pose in your letter—and I shall do so in the numerical order in which they were presented.

(1) If it be true that "hundreds of millions of dollars of exports are being lost for want of adequate financing" either by U.S. private or government sources we are forced to the conclusion that the great amount of such potential exports would be to countries that are already having difficulty or where we anticipate early difficulty in paying their dollar debts. Irrespective of what portion of the credit risk a commercial bank is prepared to assume on a transaction with which we are associated, the Export-Import Bank undertakes to guarantee 100 percent of the political risk. This risk includes, among other things, the inability of the buyer to convert his currency into dollars with which to meet the obligation which he has incurred. So far as the exporter is concerned, the Bank assumes 95 percent of such risk on short-term transactions and 85 percent on medium-term transactions. Thus it is not inconsistent to say that a particular transaction may be unsound from the standpoint of the Eximbank and yet at the same time may be regarded as sound by both the exporter and his commercial bank. Since the commercial bank has nothing to lose from political risks and the exporter has at risk for the most part only his profit, the transaction can easily be attractive from their standpoint and distinctly undesirable from the point of view of the U.S. taxpayer.

(2) There are a number of factors that affect a country's ability to provide the U.S. dollar exchange required to pay for imports from our country. One of these is the nature of the borrowing country's export trade. A country, the principal export of which is cotton, for example, or meat for another example, will be able to earn relatively few dollars from its exports to the United States. However, its earnings of another currency from such exports may be such that payment of its obligations in that currency would not be seriously impaired. This is one of the reasons why it may be possible for other industrialized nations to make sound export credit sales in a market where the extension of further dollar credits would be unsound indeed.

The fact that the Agency for International Development may be extending assistance in dollars to a given country does not mean that these dollars are freely disposable by the recipient country. The great majority of AID loans today are tied to procurement in the United States for specified purposes and so may not be available to pay for the other U.S. exports that the Export-Import Bank finances, guarantees, or insures. The appropriate question would seem to be not: "Why doesn't the Bank increase its activity in proportion to AID assistance?" but rather: "How can some of the specific needs of U.S. exporters for export credit assistance be met from the AID funds that may be available?" And the answer to that question is that AID funds are of direct assistance to U.S. exporters.

AID lending is essentially of two types—"program loans" covering raw materials, small equipment items, spare parts, and the like; and loans for specific projects. The former are needed to keep the economy of a developing country moving; and the latter are expected to make a long-term contribution to the economic viability of the recipient country. The great bulk of the items financed under these loans originate in the United States and while they may not increase the business of a particular exporter, some U.S. factory, mine, or farm is benefiting from the business.

Another point that needs to be made anent your second question is that every lender, guarantor, or insurer—no matter how large—governmental or nongovernmental, necessarily must keep in the forefront of his mind the degree of his exposure in a particular country at a particular point in time. For amounts which are relatively small in relation to the lender's capital or other resources, he ordinarily would take risks which he would reject when the exposure appeared to be approaching a prudent limit. Every seller, lender, or guarantor under such circumstances hopes that other sellers will refrain from extending additional credit to a particular borrower in this category but these hopes frequently are not realized in competition between nations any more than they are in private, purely domestic trade.

(3) It is well known that the financial ability of some countries to meet the demand of their importers for U.S. dollar exchange may vary rather sharply from time to time. Thus, it would be imprudent for any credit insurer to commit itself irrevocably to insure payments for exports to be shipped to the more difficult markets during an indefinite number of years in the future. The Bank, of course, is well aware of the need to continue, wherever possible, such exports

as replacement parts to keep existing equipment operating abroad and to assist in the retention of markets developed in past years. You would not, I am sure, suggest that even though an American manufacturer has made a particularly energetic and costly effort to develop a market, the Export-Import Bank should nevertheless continue to extend credit if his customers ceased to be credit worthy or if the country in which he is located has pursued unsound economic policies which make it unlikely that it will be able to meet its obligations. Our approach to solutions for these problems will continue to be as flexible as we can devise.

(4) In my view, it is essential to the sound extension of export credit generally that support of further credits in a given country be curtailed when the ability of that country to meet its obligations is seriously open to doubt. This position would not be altered by the possibility that the country in question might continue to obtain credit from other sources of supply, since such a possibility in no way improves its already questionable repayment ability.

The Bank has had years of experience in dealing with countries having serious repayment difficulties. Within the past year or two we have had to reschedule payments due us from four of them. Three—Argentina, Brazil, and Chile—were the countries mentioned most frequently during your hearings as prime markets for U.S. exports. Yet Brazil was able to repay only $2 million of the $56 million due the Bank last year and Argentina $8 million of the $33 million due that year, while Chile will pay currently only $8 million out of $26 million due. Moreover, these amounts represented a very small fraction of the total indebtedness of those countries to us.

While it is sometimes true, as I indicated in my reply to question 2, that one developed country may more soundly be able to extend further credit than can another, the fact is that industrialized countries generally are in close agreement on the ability of a given importing country to service additional debt. All export credit insurers have similar views as to which countries cannot afford significant further increases in foreign debt and they curtail their insuring activities accordingly. We know of a number of occasions recently when one or another of the leading exporting countries has practiced more stringent curtailment of further export credit than has the Export-Import Bank.

Finally, it should be evident that the term of a credit often has a major influence in determining its appropriateness. The usual situation of exchange stringency is one in which insufficient foreign exchange will be available in the immediately ensuing years to service the payments falling due in this near-term period. Thus, it may be quite unsound to extend further medium-term credits, with repayments falling mainly in these same years of stringency, while at the same time the prospects for repayment of long-term credits may be satisfactory. Moreover, a good many of these longer term projects will themselves earn substantial amounts of foreign exchange and thus present much better promise of repayment than would credits extended for the imporation of a miscellany of consumer or consumer-durable goods. These are among the reasons which may persuade us to seek to curtail the extension of certain credits while at the same time we are prepared to finance other U.S. exports through large direct loans on long terms in the same country. And may I emphasize that these larger long-term direct loans frequently represent a substantially greater amount of U.S. exports than would be represented by the medium-term credits or guarantees which are curtailed.

Reference is made here, as well as in other questions, to the presumed use by the Bank of "exposure limits" as well as "transaction limits." I assume the phrase "exposure limit" refers to a fixed dollar figure which would limit the amount of loans, guarantees, and insurance which it is considered prudent to have outstanding or to have committed in a given country. I have discussed this point somewhat earlier in this letter. Here I need only say that the Export-Import Bank has never specified a dollar limit for any country, although there are times when, until the credit worthiness of a country improves substantially, we will endeavor to exercise restraint in the amounts and terms of business which we are prepared to guarantee or insure.

"Transaction limits" have been used between one buyer and one seller, where the Bank agrees to guarantee or insure for the purpose of spreading among as many exporters and their oversea buyers as possible the limited assistance it is prudent to provide in the more difficult markets. Export credit insurers in other industrialized countries, faced with the same problem of demands for more insurance cover in a market than it seems to them wise to supply, meet

the situation in the same way; that is, by spreading the assistance among as many exporters as possible by the use of transaction limits. This device, however, has not been well received by some exporters and bankers and therefore the Bank, in an effort to provide greater flexibility, is in the process of giving careful consideration to alternative solutions to the problem.

(5) The Bank is well aware that an initial seller in a market often derives from the first sale prospects for future sales in weak markets. As I indicated in my reply to question 3, the Bank, within the limits of prudence, is prepared to do what it can to meet the needs of exporters who try to maintain the markets they have recently entered.

(6) We believe it is well accepted in the Congress that there is a great difference between the loans made by the Export-Import Bank and those made by the Agency for International Development. Apart from the fact that the Export-Import Bank Act uses the expression "reasonable assurance of repayment" whereas the Foreign Assistance Act of 1961, as amended, uses the expression "reasonable prospects of repayment," the legislative histories of these acts make it amply clear that the Export-Import Bank makes so-called hard loans whereas AID makes so-called soft loans. Otherwise stated, it is our impression that both the legislative and executive branches of the Government as well as U.S. exporters, investors, bankers, and foreign governments and nationals understand that the purpose of AID is to make loans in developing countries on terms much more favorable than those of the Export-Import Bank in order to compensate for lack of capacity of the countries in question to service such hard loans.

(7) I doubt that any informed exporter or commercial bank would assert that the Export-Import Bank standards are more conservative than those of private companies and private banks. Manifestly, no commercial bank would come to us if it were prepared to do business without our assistance. Moreover, any exporter who came to us in the first instance rather than to a commercial bank would be told to go to his commercial bank, which in turn could come to us if our assistance was required. The fact is that we are taking the risks which neither the exporters nor commercial banks can justifiably assume. Since there can always be differences in judgment about individual risks, however, exporters may have undertaken an occasional transaction for their own account and risk after the Export-Import Bank had been unable to see its way clear to provide assistance.

To the best of my knowledge the Bank has never knowingly competed with private capital in financing an export transaction and it is our constant endeavor, as our act provides, to supplement rather than to compete with private enterprise.

(8) The Export-Import Bank is in close contact with the governmental or quasi-governmental credit insuring organizations in each of the major exporting countries. There is frequent exchange of information among us, thoroughly comparable to that which financial institutions make available to one another in this country. Interest rates and credit terms employed by others are the subject of frequent investigation and review. While no two guarantee or insurance systems are identical, we believe that interest rates and terms employed by the Bank are fully competitive with those of other countries and overall, indeed, are more liberal than those of competing systems.

I have personally talked to numbers of manufacturing exporters in competing countries. None of them regards the facilities made available to him by his government as being comparable to those made available by the United States through the Export-Import Bank. This is so much an admitted fact in Europe that the industrialized countries are vigorously protesting in the OECD the project loans of the Export-Import Bank on the ground that they are too generous in their terms and preclude competition. Time and again, for instance, the London Economist or the Financial Times has expressed the thought that an institution such as the Export-Import Bank—which finances its exporters on terms the Export Credits Guarantee Department through its guarantee operations is unable to match—is needed in Great Britain. Comparable comment is made on the Continent and in the words of the French insurers, COFACE, "Export-Import Bank is too formidable a weapon for us to contend with."

(9) One of the principal beneficiaries of the direct loans made by the Bank has been the engineering-construction industry. The Bank was the first government-owned export credit institution in the world to engage in direct "tied" lending. The proceeds of these loans, as you know, are limited to the acquisition

in the United States and exportation to the borrower abroad of machinery, equipment, and services of U.S. origin. A significant portion of these billions of dollars has been used to pay for the services of the engineering-construction industry. By way of illustration I need only refer to the many projects for the construction of roads, dams, and bridges which have been financed by the Export-Import Bank.

(10) As an integral part of a great many major projects financed, the Bank requires that the borrower obtain the services of U.S. consulting firms. Payments for these services are made by the borrowers with funds provided by the Bank's loans. The Bank considers that the services of U.S. consulting engineering firms in many cases are vital to the success of these projects. Thus generally when the utilization of heavy industrial machinery is involved, the inclusion of a requirement for U.S. consulting engineering services is a matter of Bank policy.

There remain the engineering and other professional services, not as an integral part of a project, which the Bank has financed. For at least 2 years the Bank has been prepared to assist in the financing of such services on the same basis it finances tangible exports in the form of equipment and other goods. However, our difficulty has been that the proposals presented to us with respect to contracts for engineering and other professional services have not been bankable. In a number of instances the contracts involved countries in which the Bank was not prepared to extend a credit or a guarantee in as large an amount as was called for by the contracts, with the result that the application was denied not because it was for services only but for the reason that any request for financing or guaranteeing would have been rejected. In other cases, the putative contracts which were presented to us for consideration were not definitive enough with respect to the work to be performed nad the amount to be paid for us to issue a guarantee. The facilities of the Bank continue to be available for financing or guaranteeing contracts for engineering and the other professional services provided they meet these minimum conditions.

(11) The Congress in its wisdom has provided the Bank with a very broad, simple, and flexible charter under which to operate. The Bank is authorized to perform almost any kind of banking function (except the issuance of currency) including acceptance of deposits. We do not undertake every banking function because we believe that our activities should be limited to those which are needed to facilitate exports from the United States. You ask why we have not implemented our authority to rediscount loans made by private banks for export purposes and my answer is that we are not convinced there is any need for us to do so. We take it you mean rediscounting of such paper with recourse on a commercial bank on its request. Over the past 4 years we have reduced by almost $2 billion the amount of U.S. Government funds employed in our activities while at the same time we have increased substantially the scope and volume of our activities. This record is, in my opinion, a clear indication that there is no present need for the Export-Import Bank to provide additional funds. If in the judgment of our Board and other authorities in the executive branch of the Government it were in the national interest at some future time for us to reduce the funds which commercial banks had tied up in export paper, the Export-Import Bank could and would make appropriate arrangements to provide funds either through rediscounting or some other device. I should add that the broad question of whether present rediscounting facilities available to the commercial banks are adequate is a matter primarily within the purview of the Board of Governors of the Federal Reserve System.

(12) Nothing I have said by way of denying the direct or implied charges of inadequacy of the Export-Import Bank assistance to U.S. exporters is to be taken to mean that I believe that the Bank's operations are perfect and there will not be a need for continuing effort by the Bank within the framework of its charter to make its operations more flexible. I have already discussed with you certain ideas which we have to improve our operations in consultation with the Secretaries of the Treasury and Commerce. I would, however, be remiss if I did not emphasize the carefully chosen word "sound," in the sentence from President Johnson's statement which you quoted. These efforts on our part will include earnest consideration of those problems which have given rise to the introduction of S. 558. Our reading of the testimony and our knowledge of the facts lead us to these observations.

The issue is not that the governments of other industrialized countries offer facilities for financing their exports superior to those available to our ex-

porters—with the result that U.S. exports are losing out to exports from other countries because foreign buyers are not being given adequate credit by the United States to purchase its products. This generalization—which has been repeated so often that there is real danger of its being accepted as fact—is simply not true. The fact is that the U.S. Government has more and bigger and better programs and facilities not only for guaranteeing and insuring, but also for financing its exports than does any other industrialized country.

Furthermore, it is quite wide of the mark to assert that the Export-Import Bank offers commercial terms, and that better than commercial terms are needed to compete with the European insurers. Export-Import Bank terms are commercial only when compared to the 40-year 3½-percent (or less) loans of AID. The terms of the Export-Import Bank on all counts are more favorable to buyers than those that would be offered by commercial banks or other commercial sources if in fact there were commercial credit available for the transactions in question. Moreover, on balance, the Export-Import Banks offers as favorable terms as any government export insurance or guarantee agency in the world.

Of course we do not maintain that the Export-Import Bank approves every request for credit with which it is confronted. For many reasons, principally the inability of the Bank to find reasonable assurance of repayment in dollars, certain requests have been and will be refused. Nor do we deny that U.S. exporters may from time to time lose sales which exporters from other industrialized countries may win with the support of their governments. It should be self-evident that in a competitive world no individual seller and no individual selling country, regardless of its credit facilities, can or should expect to get all of the business all of the time.

In this connection I ask also that you bear in mind that for years it has been the constant endeavor of the executive branch of this Government, both in bilateral negotiations and in multilateral forums to persuade other industrialized nations to assume a greater share of the burden of aid to the developing countries. Except for such assistance as is provided by the internationally owned banks, as a practical matter substantially all aid is tied; that is, it is granted in the form of goods and services from the lending country. Most other large developed nations which share the burden of assistance with the United States will continue to see to it, as do we, that their aid is tied. This of course means that the United States cannot at the same time expect to get greater paricipation by other industrialized countries and not expect them to do more business, that is, sell more to the developing ones.

What then is the real issue? It is whether there is a significant amount of potential dollar exports which might be sold on a relatively sound credit basis, but which are not being sold because of lack of available Government or private credit in the United States. This question prompts these further observations.

Despite the high level of domestic consumption, the United States is not exporting to the limits of its capacity. Nor have we reached the limit of our need for earnings from our export trade. Although our trade surplus last year was about $6 billion, we need to export more to maintain the level of our domestic economy as well as to help offset our overall deficit balance-of-payments position. But in respect of the latter a question of two parts arises. First, is any more Eximbank credit required to increase exports to the highly industrialized countries? The answer is "No," because there is credit available in the private market, and any gap which may exist the Bank is prepared to fill. Second, how much more can be sold on credit to the developing countries where our facilities are essential to sales? And from this second part comes what we regard as the ultimate question; namely, how much of the export increase obtainable from a much more liberal credit policy would be paid for? The evidence around us is, I think, conclusive that for such additional exports we would not for the most part be reimbursed. And exports which are not paid for do our balance of payments no good. We doubt, therefore, the wisdom of engaging deliberately in what may be conveniently but not unfairly called "soft financing of exports." We believe that you will agree with this position.

Mr. Chairman, may I say that even though we are convinced that the opinions expressed during the recent hearings on S. 558 represent the positions of only a very small minority of the scores of commercial banks and of the thousands of exporters to whom the Export-Import Bank has extended the benefit of its facilities, nevertheless we have noted carefully the views of the witnesses and their views are being given our earnest consideration.

Sincerely yours,

(Signed) HAROLD F. LINDER.

EXPORT-IMPORT BANK OF WASHINGTON,
Washington, D.C., May 27, 1965.

Hon. WARREN G. MAGNUSON,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: As you will see from the attached press release, the Bank and the FCIA are liberalizing the use and expanding the "cover" for exporters provided under our commercial bank guarantee and export credit insurance programs. Principal changes are:

(1) Individual transaction limits no longer will be imposed, even in the more difficult markets, although the Bank of course will retain the right in special circumstances to limit its liability or to deny assistance when necessary.

(2) Normal cover under guarantees and insurance will be increased from the former 85 percent of loss to 90 percent to match similar increases recently adopted by Britain and Canada.

(3) Cover now will be provided also for a part of losses from nonacceptance of the goods by overseas buyers. This will be done in a manner analogous to that available to British and a few other exporters.

(4) Other modifications, not sufficiently far-reaching to warrant inclusion in the press release, include deletion of specific prohibition of revolving credits, and of smaller sales to public buyers, in the most difficult markets.

These improvements willl be available to exporters without increase in guarantee fees or insurance premiums.

I am sure you will share with me our pleasure at announcement of these modifications. They should make the guarantee and insurance programs even more helpful in expanding our export trade on a sound basis.

Sincerely yours,

HAROLD F. LINDER.

[Export-Import Bank of Washington—Press release, June 1, 1965]

EXPORT CREDIT PROTECTION BROADENED

Exporters now have greater protection against risk of nonpayment and greater flexibility in overseas selling on credit. The Export-Import Bank of Washington and the Foreign Credit Insurance Asociation (FCIA) have liberalized their guarantee and insurance programs, effective immediately.

Specific limits on the size of short- and medium-term transactions in certain difficult markets are eliminated in both export credit insurance and guarantees. The unprotected portion of supplier credits normally carried by exporters at their own risk has been reduced by one-third—from 15 to 10 percent—subject to some exceptions. FCIA export credit insurance policies, for the first time, may now provide substantial insurance cover for loses due to nonacceptance of goods by overseas purchasers. These modifications have been made at no increase in guarantee fees or insurance premium rates.

"TRANSACTION LIMITS" ABOLISHED

Eximbank no longer suggests limits on the size of transactions to be insured or guaranteed in specific markets. However, in a relatively limited number of difficult markets, the share of the financed portion to be retained by the exporter will range up to 30 percent. Moreover, when a transaction involves an unusually large amount for a given market. Eximbank reserves the right to fix special conditions, including a higher percentage of exporter participation in the risks, or to decline to assist the transaction.

EXPORTER LIABILITY REDUCED

Under Eximbank's program of medium-term guarantees to commercial banks, the normal share of the financed portion retained by the exporter has been reduced from 15 percent to 10 percent. Nonrecourse financing by commercial banks covered by Eximbank's guarantees has been increased accordingly. For exports of agricultural commodities, sold on Eximbank-guaranteed credits or with FCIA assistance, exporter retention remains at 5 percent of the financed portion of the sales contract.

Under direct Eximbank guarantees, protection has been correspondingly increased from 85 percent to 90 percent. Such transactions include cover for preshipment, leases, engineering, and other services, consignments, and other transactions not included in the insurance (FCIA) or bank guarantee programs.

Effective today, shipments by holders of current FCIA short-term comprehensive policies will benefit from 90-percent coverage, rather than 85 percent, on losses due to commercial risks. Political risk coverage under these policies remains at 95 percent. New FCIA policies covering medium-term transactions will provide for the increased coverage of 90 percent of the financed portion on both commercial and political risks. It should be understood, however, that while this is the general rule, it may be necessary that this coverage be reduced under either short- or medium-term policies to compensate for unusually high risks in some kinds of transactions and in certain markets abroad.

In addition, FCIA has augmented its guarantee of payment of interest to banks extending medium-term nonrecourse financing to exporters under the "hold harmless" assignment announced March 9. Under these assignments, FCIA now pays interest at the rate of 4½ percent on defaulted installments from the due date up to a maximum of 6 months. This guarantee of interest after due date is intended to assist exporters in receiving nonrecourse export financing from commercial banks which obtain "hold harmless" assignments from FCIA.

FCIA has set approved credit limits on many overseas buyers for holders of short-term comprehensive policies. Occasionally, some exporters may find it necessary to ship in excess of these limits. Eximbank is now prepared to cover political risks on such shipments in most markets.

NONACCEPTANCE COVERAGE BY FCIA

FCIA coverage has been broadened in most cases to include most of the loss from nonacceptance of goods by foreign purchasers. For medium-term comprehensive policies, after assumption by the exporter of a first-loss equivalent to 25 percent of the financed portion, the remainder of the loss, up to a maximum of 60 percent of the invoice value, will be paid by FCIA. In the case of short-term comprehensive policies, after the assumption of a first-loss equivalent to 40 percent of the invoice value, FCIA will insure the remainder of the loss, up to the maximum of its liability under the policy.

These improvements in export credit insurance and guarantee facilities, at no increase in cost to exporters, constitute further assistance enabling American exporters to continue to compete in world markets on the basis of price, quality, and service. Increased exports due to these changes will contribute to improvement of our country's balance of payments.

The CHAIRMAN. Our first witness this morning is the Honorable Brock Adams, Congressman from the State of Washington.

Mr. Adams has introduced similar legislation in the House of Representatives. They are appropriately willing, after these hearings, to pick up and explore the matter further on the House side, so that we might get some action on this proposal.

We will be glad to hear from you, Mr. Adams.

STATEMENT OF HON. BROCK ADAMS, REPRESENTATIVE IN CONGRESS FROM THE SEVENTH DISTRICT, STATE OF WASHINGTON

Mr. ADAMS. Mr. Chairman, Senator Bartlett, Senator Bass. I appreciate very much the opportunity to be here this morning. I thought that I might start as a witness in this proceeding by generally outlining the problem as we see it and, as the chairman mentioned, leave the specifics on particular sales lost and particular problems that have arisen in individual countries to the witnesses that will follow me, and particularly the industry witnesses.

I would like to emphasize first that what we are trying to do is to produce a situation in the world where our individual salesmen from private industry in the United States can compete effectively abroad.

A change in the complexion of world affairs has occurred in the last 10 years. As we are all aware, in the early stages after World War II we faced a situation of rebuilding certain of the developed

nations of the world to a point where they could maintain their own economies. This has been accomplished and they are now in a position where they compete directly with us in many fields.

We are now moving to a new concept in our foreign relations, which basically consists of dealing with the underdeveloped nations of the world, the nations that are only now beginning to arrive at a point in their economic growth where they can develop their economies if they receive some help and some assistance.

Primarily our problem has been one of trying to analyze this new concept, and in particular, to make our salespeople capable of dealing in this area. One of the biggest problems is the question of financing exports to these countries.

The underdeveloped nation, as it starts, does not have sufficient capital to purchase heavy goods directly from our manufacturers. I am talking, for example, about the country that desires to purchase our jet aircraft, heavy farm equipment, or other types of industrial equipment. It will soon find that it does not have funds sufficient to meet even its most basic needs.

Then what occurs? If another nation, offering the same type of product—maybe not competitive with ours, maybe not quite as good a product—should go to this nation and offer its leaders better terms, that underdeveloped nation has no choice—it must buy where it can finance.

It is almost like selling into the market in the United States to those who are not wealthy—some arrangements must be made so that these people can buy on time.

This is one of the key purposes of title II of this bill, to provide a vehicle to facilitate our manufacturers' selling efforts. We suggest a vehicle that will place the Eximbank in a position where it will be able, willing, and determined to follow through on making competitive financing available to our exporters as they sell.

As a very simple example, let's take, so we won't go to a particular industry, an item called a widget. We have a widget and it costs so much money. We will say it costs $1 million. It is an essential item.

We approach an underdeveloped country and say, "We would like to have you buy our widget." They say, "We would like to buy it, but we do not have the cash."

Our widget manufacturer then is in a position to say, "All right, we will offer this for sale to you on credit. You pay so much down, and so much a month for it, or so much a year."

In such a transaction our average American businessman cannot take the political risks, and he cannot assume the complete soft credit risk of selling into a country where he knows little of the people or their credit background, and therefore he must rely on some type of governmental assistance.

The type of governmental assistance we think that can be and would be developed from this bill would be to have Eximbank, guarantee, as it does now, but on a much broader and more flexible basis, the financing provided for our exporters by private banking institutions.

It is a simple concept, but an important one. As our manufacturer sells his widget for so much down, he would be financed in that sale as though he were selling to some customer in the United States, except that the guarantee would be provided by the Export-Import Bank, which says, "We will protect this sale."

A key portion of this bill is the provision that seeks to change the concept of financing by Export-Import Bank so that our exporters are fully and effectively competitive in financing arrangements with other countries in the development and maintenance of world markets.

I trust that during these hearings you will hear a number of specific examples of the problems our people face as they try to sell abroad. I hope that during the course of the testimony the precise figures can be established for you. However, I can give you some general estimates.

For example, it is estimated that in the aerospace industry alone there is a potential for $2 billion worth of sales in countries that presently cannot purchase our products because of inadequate financing. In terms of the jobs that are produced in the United States, the significance of selling abroad is obvious.

A second important aspect of such financing is its effect on our balance of payments. This is the only type of long-term solution that we can produce for our balance-of-payments problem.

We can make short-term, stopgap programs such as our present attempt to return our balance of payments to a favorable balance. But over the long pull the only way to produce credits with the foreign nations is to trade with them, to have them owe us, as you might say, for our products, and in owing us for our products they then owe us dollar balances and the balance of payments becomes favorable for us.

We must have an increased favorable balance of trade in order to meet our present commitments abroad. Currently we export more than we import. But we do not export enough more than we import to cover our commitments in the areas of military assistance and our other assistance programs and our capital outflow for private foreign investment. Therefore we must increase our foreign trade.

The final general point that I make is that in title I of the bill we are attempting to supplement the type of help that is provided in title II, by moving our commercial people abroad in significant numbers, so they can live and work in the foreign countries and make the contacts essential to promote the necessary foreign sales.

There are in the world approximately 135 cities that are either world capitals or contain populations in excess of a million people. In only 93 of these do we have a commercial attaché which means that in the remainder of these countries it is a hit-or-miss proposition. We want to aid our private businessmen in going abroad and developing these markets, and, after they have developed the markets, to produce the financing necessary so they can sell in them.

Gentlemen, this is what we hope will be accomplished in the bills that Senator Magnuson and I have introduced. I wish to emphasize most of all that we must increase the financing available for our private businessmen.

If we do not do so, then we are going to fail in the competitive race for world trade. And if we fail in the competitive race for world trade, we not only will injure political and diplomatic relationships with these countries, but also our economy will begin to falter because we need the percentage that we sell abroad to keep us in a position of being vital and moving ahead. This margin; the amount that is sold overseas, is in many industries the exact amount by which a given company is able to prosper.

This means jobs, this means development for our country, and finally it means the things that I think all of us are very interested in having happen, and that is that we maintain relationships with these emerging and developing countries that are friendly, that are person-to-person type relationships, and that are capable of showing people that we are interested in them, that we want to trade with them, that we want to be involved in their countries.

Gentlemen, I believe this is one of the key ways that we produce world peace and that we produce nations that are not hostile to us—not just by giving them money, but by trading with them and by respecting their economies and by saying, "We know you need help now to finance these sales, and we will help you now, and the day may come when you don't need our financing any more. If so, then Godspeed and we are pleased that you arrived at that stage. Until you arrive at that stage we are willing to sell to you on credit because we respect you."

I appreciate being able to make this statement. I would be most happy to answer any questions that the committee may have.

The CHAIRMAN. Thank you, Brock. I think that was an excellent statement. It probably sums up the whole purpose of the bill. I don't know of anything that could better sum up briefly and clearly the purpose of the bill.

I am glad you stressed the fact that in this balance of trade deficit there are certain temporary answers, certain urgencies that we might invoke that might help the situation temporarily. But the only final solution to this is more exports. We are never going to balance our international account books without increasing our exports, no matter how hard we try. One of the big items, as you know, is travel. Americans traveling abroad spend far more than foreigners traveling here.

This committee established the so-called U.S. travel service. We have done very well with it. Since 1961 the number of overseas travelers in the United States has increased 86 percent. But when we discuss a gap between about $1 billion spent here by foreigners traveling in the United States and, this year, a staggering total that will approximate $2.1 billion—this is the best estimate of the amount spent by Americans traveling abroad—we are not going to bring those figures together in a long time, although we are hopeful of making progress. That is a major deficit item. The difference must be recovered elsewhere.

Increasing our exports is our major hope. Our military expenditures abroad have been cut as far as possible. I just don't know all the answers to it. But the President told me not more than 2 weeks ago that he thought they might be able to decrease that gap, maybe by requiring payments in the currency of the foreign country and things of that kind.

I don't think, personally, we will ever make any dent in this by saying that Americans can't buy goods abroad. They are going to buy them anyway, whether we reduce the tax-free allowance to $50 or $5. We tried cutting it from $500 to $100. It made virtually no difference.

The answer is in more exports. And I must say, the Department of Commerce has taken the leadership—not being immodest, this committee has pushed them a little, over the years—to propagandize more, to help more in world trade development. They have done a pretty good job. But there are many other things to do.

Title I of the bill is directed to that objective, the so-called Development Corps, which might utilize the know-how of the great number of Americans who may be retired but who are able, willing and anxious to help out in this field—the businessmen with years of experience.

The development of studies, market analysis, trade fairs, trade exhibitions and things of that kind all help. This is where we are going to conquer the gold outflow problem. This is the real place to attack it.

Much has been said—and I would like your opinion on it, based on your discussions of this whole proposal with people—much has been said to the effect that American manufacturers are unable to compete with foreign manufacturers, even though credit is available, because of cheaper labor, their ability to make a product, maybe a consumer goods product, cheaper than we can. Have you an opinion on that suggestion?

Mr. ADAMS. Yes, I believe we can compete, as many businessmen have told me. I remember discussing this only a week or two ago; our conclusion was that if you can survive in the American competitive jungle, you can survive any place in the world.

We have certain particular products that we make in the United States better than they are made any place else in the world, and we make them more competitively. In some areas we make them so much better that others will buy our products even though they can obtain a lower price from our competitors. The key is that if we once can start to sell in a country, and offer the product, we and our manufacturers enjoy a worldwide reputation for making parts available, for assuring that those parts fit, and for assuring that those parts are available when needed. And, in dealing with machinery, particularly, this is an important advantage. Our machines work, and they continue to work. The people of the world know this. This gives us a great advantage.

I think we can compete. I think we will compete. I think we do compete. I am hopeful that the witnesses who follow me will testify about their specific areas and the experiences that they have had throughout the world in competing with other nations for the underdeveloped trade.

Incidentally, the Trade Corps has one great purpose, too, which is to inform American industry of the specific needs of the emerging nations. Their products, and the products they need, are not always what we produce domestically. Obviously a domestic manufacturer needs some help—and he needs some help from the Government—in being able to know what can be sold abroad and whether it can be produced and the size of the market. Then if he commences an operation and starts to finance it, he and his banker need some protection from the political exigencies of that country.

The CHAIRMAN. Another very important matter, which American businessmen are just beginning to realize, although it seems a minor matter, is packaging. If an item is packaged wrong it doesn't appeal to people of some nations. We could advise them on that.

Isn't it true that even though we can compete, particularly in nations that don't have broad financing themselves, we have to be at least competitive on the credit level? This is the real stumbling block.

Mr. ADAMS. If they do not have the capital, and we can't or won't give them credit, the sale simply cannot take place. I think our credit policy from the Export-Import Bank, for example, can't be directed merely to a prudent banking practice. It must be viewed in terms of helping these countries by financing American exports.

That is a key factor. It is a matter of how we approach it: not only that the purchasing country appears to be an absolutely perfect risk, but that there is a good chance of repayment. In other words, we are going to have to take the position that we expect to be repaid, but we know that it will take a little more time, and we know that they may have some rough spots in the next 2 or 3 years, but we expect this.

Our present program resembles two layers of the cake with the middle layers missing. We either give them the money directly in grants, or else we tell them that they have to pay expensive financing charges.

We need the intermediate financing that forms the middle layer that says, "OK, this is not a gift, nor are we going to require cash, but we are going to help you 'in between' so that you can make this sale."

The CHAIRMAN. Some of the critics of this bill, opponents, or whatever you want to call them—call them the "reluctants"—have suggested that you and I might be suggesting to them that they make bad loans, or something of that kind.

Don't you think—at least I think this is a fair analysis—that what we are talking about is not necessarily bad credit? The fact that we make a long-term credit arrangement doesn't necessarily mean it is a bad credit.

Mr. ADAMS. That's correct.

The CHAIRMAN. It may be even better credit than some of the short term. I never could quite understand their position. No one has made any suggestion that we make, nor does any American business want us to make, any shaky or bad loans. Long-term credit doesn't necessarily imply that.

Mr. ADAMS. That's right.

The CHAIRMAN. Sometimes it is better. It is more solid if they get a chance to repay over a longer period.

One more thing: You have stressed, and I am sure many of the other witnesses will stress, the need in the underdeveloped nations. I think there is another factor, and I want your opinion.

We have had, with some other nations, particularly in South America, a long-established export-import business. In some of the markets, until 8 or 9 years ago, or maybe 5 or 6 years ago, we held a substantial part of their import market, that is, imports to them.

We are beginning to lose some of those markets, because competitors can give them credit where we can't. I could name, but I will put in the record later, many instances in South America where we have for a long time had the big part of the market in pumps, machinery, farm equipment and things of that kind, and we are starting to lose it because other countries are giving them the credit which they need—long-term credit.

It is true the Government sometimes does most of it. But our rule of thumb is 5 years, although some terms are longer. Not only might

we be losing our opportunity in new markets, but we stand a chance of losing old markets. This is pretty important to our export picture. I hope that will be further elaborated as we move along.

When we lose a market, it requires quite a bit more effort than usual to recover it than it does to gain a new market. This why we are concerned with loss of markets.

Senator BASS. Mr. Chairman, I have to go to another meeting. May I, before I leave, commend the Congressman for his excellent statement and background knowledge that you have on this subject.

Thank you for coming over and giving us the benefit of your views.

Mr. ADAMS. Thank you.

Senator BASS. If you will excuse me, Senator.

The CHAIRMAN. Certainly.

The Senator from Alaska?

Senator BARTLETT. I don't have any questions. However, I was very impressed, Representative Adams, with your lucid outline of the bill before the committee, of the problems confronting the United States in the export field, and of your views as to how, in part at least, they might be solved.

I think your presentation was all the more noteworthy because it was delivered extemporaneously, without benefit of written preparation. You have done a good job.

Mr. ADAMS. Thank you.

The CHAIRMAN. Thank you, Brock. We appreciate your coming over. We will leave the record open for a fuller statement.

Mr. ADAMS. I appreciate very much the opportunity of being here.

The CHARMAN. The next witness is Miner H. Baker, who is president of the Port of Seattle Commission and vice president and economist, Seattle-First National Bank. We will be glad to hear from you and the persons who have accompanied you.

You have a short statement, Miner. It might be well if you read your statement, because it is short, and it will give us the benefit of all your views.

Senator BARTLETT. Since some of us do not know the men who are accompanying Mr. Baker, I wonder if you will please identify them for the record.

The CHAIRMAN. Yes; would you do that for us, Miner?

STATEMENT OF MINER H. BAKER, PRESIDENT, PORT OF SEATTLE COMMISSION, VICE PRESIDENT AND ECONOMIST, SEATTLE-FIRST NATIONAL BANK, SEATTLE, WASH.; ACCOMPANIED BY J. ELDON OPHEIM AND BRIG. GEN. JOSEPH P. ADAMS

Mr. BAKER. I am accompanied on my right by Mr. J. Eldon Opheim, who is general manager of the Port of Seattle Commission, and on my left by Brig. Gen. Joseph P. Adams, the Washington representative of the port of Seattle.

The CHAIRMAN. Thank you.

Mr. BAKER. Our presence here, gentlemen, is indicative of the concern of Seattle and the State of Washington in creating an improved environment for U.S. export trade. We recognize that there is no more effective way to narrow our balance-of-payments deficit than by increasing our favorable balance-of-trade surplus.

Moreover, apart from this immediate problem, increased trade in both directions will stimulate our industry and raise our standard of living. These are, of course, national objectives.

We also have a provincial interest in the purposes of this bill because our State faces the Pacific and throughout its history has had a large stake in foreign markets. We calculate that no less than 16,000 jobs in Seattle depend directly upon foreign trade. In Seattle's economy this is second only to the Boeing Co., which, itself, is a very major factor in the export market. We are the most distant of the 48 contiguous States from the major markets and production centers of the Nation.

As the cost of rail and truck transportatin increase, our products find it increasingly difficult to compete in those centers. Accordingly, we look to foreign trade as an important factor in maintaining a healthy rate of growth in our State. We think that S. 558 can make an important contribution toward this end.

Each of the four features of the bill—the Trade Development Corps, the cooperative export development projects, the sales and service centers, and the financial provisions—would, in our opinion, strengthen the excellent but sometimes sporadic efforts which already are being made in this field.

Thirty days from today there opens in Tokyo an international trade fair which is one of the largest exhibits of export merchandise in the world. Historically this fair has been limited to a series of national exhibits, displayed by specific invitation. This year, for the first time, an invitation was extended to an individual American State, the State of Washington. Industry, services, and related groups have joined in this private enterprise effort to increase the export of products from our State.

Some 5,000 square feet of exhibition space housed in a specially designed building provided by the plywood industry will create an impact on all who attend the fair that we are concerned and anxious to sell our products abroad. Each of the firms represented will have men on the spot to make immediate sales and to discuss terms, marketing, transportation, licensing, and other problems.

Such trade fairs provide an initial exposures, but they cannot do the same job as the permanent sales and service centers. We see this also as an area where, after the impact of such a fair wanes with the closing of the exhibit, the Trade Development Corps could provide continuity and following. Properly motivated personnel would be an invaluable aid to American industry, particularly as a liaison with the overseas agent in reshaping marketing techniques.

The assistance which is proposed for organizations and associations can also be very valuable. I think of the successful promotion which has been conducted by Pacific Northwest wheatgrowers in the Orient as the type of activity which might be furthered by this program. This is a case in which an immense consuming market is being exposed to the use of soft wheat products as a substitute for rice. More often I would expect, however, that the goal of such assistance would be not that of adapting the market to our product, as in this case, but rather adapting our product to the market.

Two years ago I participated in a trade mission to Europe, one member of which was a leader of our lumber industry who was very

much impressed with the necessity of cutting our lumber products to meet European specifications which are different than American specifications. I know that our plywood industry has the same problem of producing what the customer wants or is accustomed to.

On the same trip I was lectured at length by a Swiss importer of lentils and dry peas upon the quality of our Pacific Northwest products. In those portions of the world where lentil soup is not a rarity but a staple item of diet and a work of culinary art, the top grade product from the United States sometimes is not good enough. The study of foreign markets and the development of standards and grades which will satisfy them is one aspect of association activity which this bill will encourage.

The CHAIRMAN. Generally speaking, Miner, this relates to packaging. I am talking of packaging and all the so-called minor things which may not occur to you, as you say in your statement, in your efforts to adapt our product to the market, rather than the market to our product.

Mr. BAKER. Right, sir.

Price alone does not keep us out of foreign markets nor get us into them. Quality and standards and delivery dates are not the whole answer either. There is still the matter of credit, financing, and terms of sale. This is particularly true in the case of our leading export product from the State of Washington, Boeing jet airplanes, where the unit costs are in millions of dollars and the final determining factor often is the credit and financing offered by the competing manufacturer.

I would not underrate the importance of assistance which has been available under existing programs, but it seems to me that the language of this bill is unequivocal when it states that the Export-Import Bank shall—

> assure * * * that the United States is fully and effectively competitive in its financing arrangements.

This is the sort of policy which we need. I think it means that we will meet competition in this area, not that we will ourselves establish artificially low interest rates or unsound terms of sale.

The CHAIRMAN. May I interrupt there?

Mr. BAKER. Yes, sir.

The CHAIRMAN. I think that statement can almost be repeated because, as you point out, no one is suggesting here that we artificially establish unnecessarily low interest rates, or unsound terms.

But there seems to be an impression that long-term financing necessarily suggests an unstable loan. That isn't true at all, particularly when it is arranged between larger groups and for large sales. It is not necessarily true.

As I said to Congressman Adams, and I think you will agree he is a well-known economist in the finance field, this might help to assure the loan's stability and might be preferable to trying to raise the payments so high that repayment is quite unlikely.

Mr. BAKER. The insurance of private loans against political and credit risks for exports affecting the national interest is also essential if we are to do our share of business with the less developed nations.

Gentlemen, I am speaking today as a port commissioner, which is a nonsalaried elective office in our community, but I earn my living as

a bank economist. In both roles I am concerned with the pattern of export business from our State, and I am impressed that there is not too much rhyme or reason to it.

Some products are obviously indigenous to the area. But among our manufacturing plants, most of which are small, you will find one firm which is doing a very successful business in foreign markets and three or four similar firms which are doing no foreign business at all. This is true in such fields as electronics, machinery, food products, specialty equipment and chemicals.

Some of the firms which have scored the greatest successes appear to be highly unlikely candidates. Here is an outfit which makes machinery for pouring concrete blocks, another which makes additives for motor oil, a third which produces archery supplies, others which make luggage, soft ice cream equipment, doughnut machines, egg-cleaning equipment, voltmeters, dictating machines, and high-density lead-glass windows.

None of these has much economic reason to be located in the Pacific Northwest, let alone to be sending its products into world markets from that corner of the United States. It has no advantage in labor costs or raw materials. The one common element seems to be that each of these firms has had the imagination and courage to face the intricacies of foreign exchange and shipping and customs which are quite forbidding to the average small business. This is really the greatest barrier to trade, I think, and the bill which you are considering will help to overcome it in two ways.

The CHAIRMAN. You and I, of course, are very familiar, as are the others here, with our particular problem. Wouldn't this be true of almost any State which has manufacturing, particularly with smaller businesses?

Mr. BAKER. I am sure it is.

The CHAIRMAN. The Senator from Colorado just came in. I suspect you could apply this to that whole middle Rocky Mountain area in some of the products it makes. Let us coin a phrase: "Foreign exports are very foreign to them."

Mr. BAKER. Export business is just not in their line. We think that the bill that you are considering will help to overcome this in two ways. First, it will strengthen the program for bringing export opportunities to the attention of our producers, and it will provide them new assistance with some of the practical problems of selling abroad.

The Pacific Northwest region and the city of Seattle, which is the closest major U.S. port to the Orient, feel that their destiny is linked to the future of international trade. Our view naturally is focused on the countries of the Pacific. We have a surprisingly varied trade with Europe, but our great potential for growth is in the Orient.

As a port, our commitment to international trade is expressed in a $35 million capital improvement program to make our facilities as efficient as any in the world. Currently about 10 percent of every dollar spent in a foreign trade transaction is for transportation and related services. We know that we must have modern ocean terminals, heavy-lift equipment, special cargo handling facilities, and aircargo terminals in order to handle our share of the ever-increasing tonnages.

International trade is the product of a partnership arrangement. Industry must provide the produce and the desire to sell. Government

must provide the environment and the incentive to sell export. This bill will go far toward strengthening the partnership. We urge your favorable consideration.

The CHAIRMAN. Thank you, Miner. That is a very good statement.

I am glad you mentioned the Tokyo matter because we did urge the Commerce Department to help us finance that, and we were successful. I think that is going to be a very successful trade fair.

I have attended some of these, though not many. I have opened a couple at the request of President Kennedy. Some of them can stand a lot of improvement, although we were feeling our way. I think this will be a really excellent one, from what I can hear.

I would like to introduce at this point in the record an exchange of correspondence between myself and the Secretary of Commerce, in which the Secretary notes that a decline between 1960 and 1963 in the value of exports manufactured in the State of Washington was due to a sizable drop in the exports of aircraft.

(The correspondence follows:)

JANUARY 19, 1965.

Hon. JOHN T. CONNOR,
Secretary of Commerce,
Department of Commerce,
Washington, D.C.

DEAR MR. SECRETARY: A special survey recently conducted by the Census Bureau disclosed that only two States, of which one was the State of Washington, showed decreases in exports of manufactured goods between 1960–63.

Because exports are vital to the economic well-being of the State and the Nation, I would welcome a followup study to determine the cause of the decline in Washington's exports so that both State and Federal officials, as well as the industries concerned, can begin to fashion appropriate remedies to this trend.

Sincerely yours,

WARREN G. MAGNUSON,
U.S. Senator.

THE SECRETARY OF COMMERCE,
Washington, D.C., February 11, 1965.

Hon. WARREN G. MAGNUSON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MAGNUSON: In response to your inquiry of January 19, 1965, this office has investigated the reasons for the decline between 1960 and 1963 in the value of exports manufactured in the State of Washington.

This decline in exports is due almost entirely to a sizable drop in exports of aircraft. This decline, however, should not be viewed as symptomatic of a weakening in Washington's export position, rather it represents a return to normal. Exports of jet passenger aircraft in 1960 were abnormally high when compared to other recent years. For example, total U.S. exports of new passenger air transports were valued at $148 million in 1958, $107 million in 1959, $480 million in 1960, $266 million in 1961, $254 million in 1962, and $191 million in 1963.

It is important to note that Washington's exports of virtually every other type of manufactured good showed sizable increases between 1960 and 1963. Moreover, in many cases, these percentage increases were larger than those shown for the country as a whole. If we recompute total exports, excluding aircraft and parts, we note that Washington's foreign trade in manufactured goods increases by 18.3 percent between 1960 and 1963. This is somewhat above the comparable increase of 15.7 percent for the total United States.

I appreciate your interest in the results of the census export survey and trust that this letter has clarified somewhat the situation regarding exports manufactured in the State of Washington. Should I be able to be of any further service to you, please do not hesitate to call upon me.

Sincerely yours,

JOHN T. CONNOR,
Secretary of Commerce.

The CHAIRMAN. This, of course, poses a real problem in financing because each unit costs so much. It seems to me we much be thinking not only of what the aircraft industry is selling now, but ahead to an era of smaller jets, intermediate planes, which can be used by many of these countries, not in competition with us or major trunklines of the world. If they are able to finance the purchases of some of the smaller jets which can land in many of the airports all over the world, even in underdeveloped countries, they in turn will be generating all kinds of business for all of the airlines in the world where they are now flying. Wouldn't that be true?

Mr. BAKER. Very true, Senator.

The CHAIRMAN. I don't know what proportion of the people in the world fly. It is a very small percentage. The most airminded people in the world are in the United States. I would think worldwide generally it would be very small, wouldn't it?

General ADAMS. That is right, Senator. It is judged to be approximately 18 percent of the people in this country that have flown commercial aircraft. I would say on a world basis it would drop to probably 5 percent.

The CHAIRMAN. These small countries are going to try to develop their aviation internally, and with the small jets they are going to purchase mainly, I think, from us, because we do have the know-how—I am speaking not only of Boeing but of the whole industry. This would be stimulated, it seems to me, a great deal if they could have a credit line to buy these ships.

Looking ahead intangibly, look at what you can do with people traveling. They get to know one another, and many of the tensions and age-old antagonistic feelings disappear. Looking ahead, I think we have to do something in this field for the smaller aircraft that these companies will want to buy which they can't and don't make themselves.

I don't suggest that you speak for the First National Bank, because they would have to speak for themselves, but generally, as an economist I use the First National Bank because it happens to be there; it is a big bank, and it has substantial assets. I think it is one of the 10 largest banks in the United States, as I recall, counting all of its branches.

Mr. BAKER. Thank you for the promotion, Senator. We are 22d.

The CHAIRMAN. Anyway, it is a large bank.

Mr. BAKER. It is a large bank.

The CHAIRMAN. People ask why can't an exporter in Seattle or in the State of Washington go down to the First National and get a credit loan. Could you give us a general answer, without referring to one specific bank, but commercial banking?

Mr. BAKER. I think I can, Senator; yes. I am not in the international finance field, as you know, but I have talked to our people in this field. The fact is that in a bank as large as ours we simply are not making loans for exports to the less developed countries of the world. We don't have the facilities or the staff to make the sort of studies that would be necessary to make these sound loans. There are only a handful of banks in the country that do make any loans in the less developed countries.

The CHAIRMAN. I believe those few banks that do are mainly centered in New York.

Mr. BAKER. That is right.

The CHAIRMAN. Secondly, these loans are all short term?

Mr. BAKER. Of course, that is true of bank lending generally.

The CHAIRMAN. Commercial banks usually have short-term loans. Therefore, one has no chance in straight commercial banking if he needs to compete on a credit basis with a competitor for any sizable export sale.

Among the manufacturers that you know, or any American businesses that you know, do you know what experience they have had with obtaining Export-Import Bank loans? Do you have any general idea on that?

Mr. BAKER. No; I can't quote from my personal knowledge, Senator. I have heard this discussed by the Boeing people.

The CHAIRMAN. We will call the Bank and they can speak for themselves.

I am glad you mentioned that you are not critical of what the present system has been doing. As I understand it, you are suggesting that we just have to do more in this field?

Mr. BAKER. We are just not matching the terms being put forward.

The CHAIRMAN. You mentioned on page 2:

> Each of the four features of the bill—the Trade Development Corps, the cooperative export development projects, the sales and service centers, and the financial provisions—would, in our opinion, strengthen the excellent but sometimes sporadic efforts which already are being made in this field.

There again I think you are suggesting that we are doing something, and what is being done is performed satisfactorily, but there isn't enough. Would you agree with Congressman Adams' statement that when you look at this whole balance-of-payments deficit the really solid answer lies in increasing exports?

Mr. BAKER. I would say obviously so.

The CHAIRMAN. Or even two-way trade.

Mr. BAKER. Something has to give, as long as we are obliged to maintain the military expenditures abroad that we have. Our aid expenditures largely come back to us in terms of building up our foreign trade, so you can't save it there. It seems to me that the most logical place, in fact really the only place that you can help narrow this gap is by continuing to increase our favorable balance of trade. And it has been increasing.

The CHAIRMAN. Senator Bartlett and I would like to ask you the "$64 question." We are slightly associated with the merchant marine here in this committee, particularly in the subcommittee. Is there any problem of exports involving the rates charged by the American merchant marine, competitivewise?

Mr. BAKER. Frankly, I can't say, Senator. I should pass that question.

The CHAIRMAN. You have never gone into that field?

Mr. BAKER. No, sir.

The CHAIRMAN. In order to export we have to ship, or take it by airplane. We would like to explore the idea of whether the American manufacturer and businessman is at a disadvantage because of competitive transportation rates. I am not sure whether it is true with air cargo yet. It may be. We should explore that, too.

We have conference rates, which are the same for everybody. That doesn't cover all shipping.

Senator Bartlett, do you have some questions?

Senator BARTLETT. Thank you.

What articles of commerce, chiefly, Mr. Baker, are exported from the State of Washington or the Pacific Northwest to the Orient at this time?

Mr. BAKER. The largest items, both in value and in bulk, are agricultural commodities. Wheat is the largest single one. And, of course, this is apart from aircraft, which usually is our No. 1 item in value.

We export a good deal of wood products, though we don't export as much as we did a number of years ago.

Senator BARTLETT. You mentioned the need to gear our products for foreign acceptance. In respect to wheat, what is the degree of acceptance in the Orient, do you know?

Mr. BAKER. Excellent progress has been made both in export of wheat itself and in export of the Bulgar wheat product, a substitute for rice.

Senator BARTLETT. Is there a preference in India, for example, for the Western wheat?

Mr. BAKER. Yes, there is.

Senator BARTLETT. Is this a growing trade?

Mr. BAKER. It is a growing trade. If you look over a period of years, from year to year it varies, and, frankly, it depends very much on what Public Law 480 funds are available.

Senator BARTLETT. Japan has a great deficit now in timber. Do you see an opportunity to increase your lumber exports?

Mr. BAKER. I do, yes; in spite of the fact that our costs are higher. This again I think is a case of know-how, of studying the market, of providing the markets in a form in which they can be used. In foreign nations, as here, construction costs are rising to the extent that you can develop products that are prefabricated, so to speak, and that can be erected on the job with lower labor costs. You are going to be able to offset the lower production costs in some competitive nations.

Senator BARTLETT. Despite the fact that you referred to the importance of trade with Europe from the Pacific Northwest, I infer that you foresee a growing trade with the Orient and perhaps predominant trade in times to come with the Orient, with ever-increasing markets.

Mr. BAKER. We feel this is logical because of our position, because we are several hundred miles closer to the Orient than any other major American port. We do have, as I said, a considerable variety of trade with Europe. The volume is not great, however.

Senator BARTLETT. Your statement, Mr. Baker, appeared to me to not only be logical, but it had the added advantage of being concise. I for one want to express appreciation for your having made this long trip to inform the committee of your views, and Mr. Opheim for having come with you. Your testimony has been most valuable.

As one member of the committee, though I am not a resident in the State of Washington, I want to say that I have a very intimate familiarity with the port of Seattle, not just because I was born in Seattle, not because I have landed at Seattle countless times from Alaska, and embarked from the Seattle dock countless times for Alaska, not because I have made any particular study of this subject, but because

about twice a week General Adams, the port representative here, calls me to tell me that if I have an apple or shipload of freight from the Orient, I must send it through the port of Seattle.

He keeps me well informed on what is going in there, not only by his twice-weekly calls but every Sunday when we have a coffee hour together I learn more about the port of Seattle, and I feel my education is being furthered every week.

Mr. BAKER. We are glad to hear this. We feel we are well represented by General Adams.

The CHAIRMAN. Senator Dominick, do you have any questions?

Senator DOMINICK. Just a couple, Mr. Chairman, which I think might be helpful. I enjoyed listening to Mr. Baker. I certainly sympathize with the purpose of this bill.

Recently we had the chance of screening, and then approving, the nomination of Donald Hoagland, who is now the Assistant Administrator of the private enterprise section of the Agency for International Development in the State Department. It has a name about 14 feet long. He is a very able fellow. Have you had any contact with this particular subdivision of AID, or with the State Department, and can you tell me your reaction to its utility in this field?

Mr. BAKER. No, Senator; I am sorry I have not had personal contact with this division. I have no opinion.

Senator DOMINICK. I think, Mr. Chairman, it might be useful at some point in the process of hearings on this bill to discuss this with the particular subdivision, because I think this is exactly what they are trying to do, to try to show to private enterprise the investment opportunities that there are in particularly the underdeveloped countries as opposed to the European countries, with the thought that sooner or later this is going to come back to us.

It does create a problem with our balance of payments because on the one hand the administration is saying don't invest any more capital overseas anywhere, and in the other place the very same Government is saying please do invest it in the underdeveloped countries where you probably won't get it back. So we have that problem.

I think this might be a problem, although, as I understand it, the fundamental aim is to increase exports of goods, and not of capital as such.

I would ask you whether you feel that the development of American industries overseas ought to be pursued or cut back?

Mr. BAKER. As a strictly personal opinion, Senator, I must say that with the situation that we now confront on balance of payments, I think that further direct investment abroad should be discouraged. When I say further direct investment, I don't mean chopping it off. This in my view is a major factor in our present imbalance, the rising cost of the investments we have.

Senator DOMINICK. You are aware, are you not, that at the moment the export-import balance, as far as commercial trade is concerned, is well in favor of the United States?

Mr. BAKER. Oh, yes.

Senator DOMINICK. As a matter of fact, they have been doing a very good job.

That is all that I have, Mr. Chairman. Thank you.

The CHAIRMAN. It hasn't been mentioned, and there will be several other witnesses, but I would like a general statement from you on

this: What do you think is the outlook—we talked about machinery, electronics, airplanes, and things of that kind, and agricultural products—what do you think is the outlook or the possibility for more American sales of consumer goods in underdeveloped countries? Is the competition there too great, or is there great possibility?

I am speaking of toasters, refrigerators—things of that kind. This is what is happening in Russia. Russia is suffering from creeping capitalism now. The women over there want these things.

Mr. BAKER. I would think, sir, that there are great opportunities in the long term. But we are not going to be selling large quantities of refrigerators and television sets and the like in underdeveloped countries, let's say, in the next 10 years, simply because when your problem is raising, say, a $400 average annual income to $600, you are not talking in terms of people buying these products. When they reach the $1,000 or $1,200 level, then you are getting some place.

The CHAIRMAN. Isn't the necessity for some basic consumer items becoming more and more apparent with the people of these countries—not their governments, but the people?

I lived briefly in the Orient, and I have gone back there several times. I always thought one of the great problems over there was refrigeration. This is basically a health problem. There we should have great opportunity if we could get something that would be available at sufficiently low cost, so that with even a small income this would be almost a must to them. I hope that that will be stressed.

It isn't so true in Europe, where they make consumer products, but in the Orient there is a woeful lack of these things. Perhaps they could purchase them in some degree.

Mr. BAKER. I think your reference to refrigeration products is very apt.

The CHAIRMAN. I wanted to pose that. I think 10 million refrigerators in China today, which people could use with some power, would do more to stop Peiping communism that anything I can think of.

Mr. BAKER. I think the initial market is for commercial use, followed by consumer use.

The CHAIRMAN. Mr. Opheim, do you have anything to add?

Mr. OPHEIM. No, I think the subject we want to present was very well covered, Senator. We appreciate the opportunity of being at the top of the list.

The CHAIRMAN. Senator Bartlett, Senator Dominick and I appreciate your coming this far.

We want this record as complete as possible, so that we will have all the basis of facts on a bill of this kind. We all know, no matter what part of the United States we come from, the importance of attacking this serious balance-of-trade deficit and doing everything that is possible. I hope that in Tokyo they will have a successful exhibit—the plywood people have endorsed this bill.

I note from what you mention that you can be very helpful on this. I think the packaging of lumber is something we have overlooked, such as in developing prefabrication items, determining what they can pick up and use, rather than merely shipping our raw lumber. I am sure the lumber industry is really aware of this and is working on it.

Mr. BAKER. I think the industry is well aware of it. I think frankly that their attitude in the past has been that they paid attention to the foreign market only when the domestic market was poor. They are now realizing that if you are going to do foreign business, you, in effect, allocate a portion of your production for the foreign market, you produce it to their specifications, you take it as seriously as the domestic market.

The CHAIRMAN. Of course, the political aspects hang over any kind of a bill like this. I am talking about the political situation in different countries, which are unavoidable but which we hope would become, as we move along, more stable. I have always believed that the greatest stabilizer among nations is trade, and I think history has proved that all through the years.

There are some political aspects that might make an American businessman reluctant to go into an area without some kinds of guarantees. That is one of the important aspects of the bill.

Another important aspect is our competition. I don't want to go into this, but I have a deep feeling about it. I have felt for a long time that there are people doing business all over the world with 800 million people who we don't do business with—one-third of the world's population. So the American businessman starts out with a one-third population handicap. Sooner or later we are going to have to solve this problem. In the next generation we had better have some answer for that one-third and maybe even more of the world's population. This has an important effect on world trade.

I visited Vancouver recently. You can hardly get in the harbor, with the business going on there. You can hardly get a ship in.

American businessmen have this handicap now. I think it should be analyzed by the people, by our economists, as to just where we should go, what we should do, subject, of course, to political considerations.

Thank you very much, Mr. Baker. We appreciate your coming.

Mr. BAKER. Thank you, Senator. It is our privilege.

The CHAIRMAN. The next witness is Francis Scafuro, vice president for business relations of the Bank of America.

We will be glad to hear from you.

Senator DOMINICK. Welcome to the committee, Mr. Scafuro. We will be happy to hear your statement.

STATEMENT OF FRANCIS X. SCAFURO, VICE PRESIDENT, BANK OF AMERICA

Mr. SCAFURO. Thank you, Senator.

Mr. Chairman, members of the committee, I am pleased to have this opportunity of appearing before you to present my views regarding S. 558.

My name is Francis X. Scafuro. I am vice president in charge of business relationships of the Bank of America, 41 Broad Street, New York, which is a wholly owned Edge Act international banking subsidiary of the Bank of America, National Trust & Savings Association, of San Francisco, Calif.

To lend some character to the statement I will be making, my duties encompass the international business with firms located east of the Mississippi, from the Canadian border to the Mexican border. So I

have had some feel for the headaches that American industry is up against in trying to increase their overseas trade.

The statement which I am about to submit to your committee is directed solely toward title II of the bill. I understand that the Export-Import Bank does not favor title II, because it believes that its present charter powers provide adequate authority to achieve the objectives of that title.

I am also informed that the Export-Import Bank is presently reexamining its export credit extension criteria—whether for direct loans, guarantees, or insurance—with a view toward such liberalization of policies as will encompass the handling of the so-called national-interest transactions, that is, those propositions or types of export financing business which would not ordinarily be considered sufficiently credit worthy or sound to be insurable on a strictly commercial basis, yet the consummation of which transactions involve overriding considerations which serve our national interests.

Senator DOMINICK. Are you talking about, in that context, export business to Communist-controlled countries, or are you talking about export businesses to so-called neutral nations, or what?

Mr. SCAFURO. I will cover that, Senator, in my statement. There are several categories which I will pick up in the statement.

If the Export-Import Bank is able to demonstrate that it can and will promptly proceed to reorient its policies to substantially accomplish the objectives of title II, then, I would agree, consideration might well be given to postponement of this proposed specific legislation at this time.

However, there is a critical immediate need to maintain and expand exports of U.S. goods and services not only to our traditional foreign markets—and here I might interject that I am thinking of the area where we can deal on a strictly commercially sound basis. So it is not a matter of simply maintaining and expanding exports of U.S. goods and services to the traditional foreign markets, but also to penetrate new markets, particularly in those countries that have been recipients of our bounteous economic assistance in the form of grants-in-aid.

Over the past 30 years the Export-Import Bank has been operating as a prudent conservative banker under the congressional statutory restraint that it shall make only such loans as, in the judgment of its Board of Directors, offer "reasonable assurance of repayment."

Perhaps, over the years, the Export-Import Bank has made too restrictive an interpretation of this congressional mandate. Its basic mission, after all, is to assist, support, and encourage the overseas trade of U.S. private enterprise.

The fact remains that the die has been cast, a tradition of conservatism has become established within the Export-Import Bank which conceivably it might be well to maintain with respect to the great bulk of the normal business processed through this institution.

Yet the prevailing conditions in many world markets clearly point up the need for a somewhat more liberal and dynamic approach to the credit and financing policies and methods essential to the maintenance of our trading relationships with individual countries and to the overall expansion of our export trade.

The provision of a special fund, as provided for under title II of S. 558, might well prove to be a sound and fruitful means of closing the gap between our economic aid programs, which often yield little or no return, and a realistic mechanism for developing and enlarging markets in areas which, though presently unsettled, will eventually become desirable and profitable customers for U.S. suppliers.

The title II special fund of $500 million is needed to enable American exporters and their commercial bankers to facilitate financing exports of U.S. goods and services under the following circumstances:

1. To buyers in countries removed from or being phased out of U.S. economic assistance programs. Here risks, both political and commercial may be abnormal, but our exports must move forward to these countries; otherwise all of our past AID expenditures may prove to have been wasted. We will gain more friends by dealing with people abroad on an honorable commercial basis than by pressing our charity upon them.

2. The maintenance or expansion of our existing export markets against the rugged and effective competition of other highly industrialized nations will require, at times, the assumption of unusual risks which neither the individual exporter or his banker can reasonably be expected to take, yet the preservation or expansion of each market is vital to us regardless of the particular country's immediate economic and political situation.

3. The penetration of some highly desirable markets will at times require matching our foreign competition not only as to delivery, quality, and price, but also as to special extended payment terms at concessional financing cost.

4. Assuming the liberalization of U.S. trade with certain of the Communist bloc countries, the resulting transfer or convertibility risks will be considered high, particularly on credits of over 6 months duration. Certainly this type of export operation would have to fall within the special fund that would be provided by title II of S. 558.

Other industrial nations provide a special fund for national-interest transactions. For example, Great Britain's Export Credits Guarantee Department, the equivalent of our Export-Import Bank here, which has a specific authorization of £800 million (about $2,400 million) while Canada's Export Credits Insurance Corporation—again a parallel of the Export-Import Bank—has a limit of C$600 million for the same category of business.

In comparison, the proposed title II figure of U.S. $500 million can be considered modest.

Suggested modifications in title II provisions: Perhaps your committee might give consideration to modifying the provisions of title II to minimize use of public funds and maximize use of private funds, or commercial banking participation, in this export financing.

1. The emphasis should be on Export-Import Bank facilitating this business by the issuance of its direct guarantees to banks and by underwriting export credit insurance or reinsurance through the Foreign Credit Insurance Association (FCIA). Export-Import Bank direct loans should be a matter of last resort.

2. When competitive situations or other reasons require the application of concessional rates of interest which are below those obtainable

through commercial banking channels, a plan should be adopted which would still permit the use of private funds versus public funds.

One way might be to apply special low premium rates for Export-Import Bank guarantees or reinsurance. However, at present section 2(c)(1), the last sentence of the Export-Import Bank Act of 1945, states:

> Fees and premiums shall be charged in connection with such transactions (insurance or guarantees) commensurate, in the judgment of the Bank, with the risks covered.

Obviously, under these concessional situations, the premium rate would have to be something other than that which would be commensurate with the risks in the particular situation.

3. To encourage commercial banks to undertake the maximum possible amount of all types of medium-term export financing backed by Export-Import guarantees or FCIA insurance, there is a need to create liquidity for such export financing obligations held in commercial bank portfolios.

This can be accomplished by authorizing and requiring the Export-Import Bank to stand ready atany and all times to discount guaranteed and insured paper for commercial banks, without recourse to them, whenever and to the extent that the Export-Import Bank or FCIA has guaranteed or insured the obligation.

The rates at which the Export-Import Bank would effect such discounts should allow a reasonable margin to the commercial bank to cover its overhead in processing and administering ultimate collection of the obligation.

At this point, I would like to clarify what may seem to be a contradiction in my suggestions that (*a*) commercial banks should be permitted to use their private funds, rather than that public funds be used, in financing guaranteed and insured export obligations, and (*b*) that commercial banks at the same time be provided with full rediscounting facilities.

The explanation is that the commercial banks would, in their own interests, continue to hold such guarantee paper in their portfolios as long as they were not being pressed for more loanable funds.

Yet, the ready accessibility of discounting facilities through the Export-Import Bank would give the commercial banks assurance of liquidity in periods of stress and remove their fear of having to comply with normal, possibly legal, inhibitions against having too high a ratio of term loans which could not otherwise be readily disposed of in an emergency and at predetermined spread between the rate on the obligation and the discount rate.

Title II of S. 558 makes provision for the establishment of an Interdepartmental Advisory Committee on National Interest Financing. This Committee, through the functions and responsibilities assigned to it, will undoubtedly prove to be a most necessary and useful instrumentality through which to establish the necessary guidelines to assist the Export-Import Bank in determining what categories of goods, services, markets or transactions may warrant the "national interest" treatment.

There is, however, a serious question as to whether this committee mechanism, as proposed, can be truly responsive to the requirements of emergency situations and able to make prompt decisions as to whether

or not specific transactions offered by exporters can be covered under this title II program.

In many instances, experience proves that these decisions, to be meaningful, must be rendered on the same day that the problem is posed.

Although I mentioned at the beginning that my remarks would be directed solely to title II, I find one particular part of title I (which deals with the Trade Development Corps) to be of special interest in relation to title II.

It is of interest in the sense that the legislation would require the Corps—

> to consist of U.S. citizens who (1) are or have been in public industry or are otherwise well-qualified, (2) possess experience or skills which can be effectively utilized in the operation of the Corps * * *.

These are very sound provisions, and they raise the question whether it might not be equally appropriate to include some such provisions as to qualification for those who may be in the future appointed to the Board of Directors of the Export-Import Bank.

It would seem that the Congress should in this same legislation specify the qualifications of those who are to pass judgment on very complex and substantial international financial transactions.

Of the 31 export insuring entities in 23 countries whose development I have had occasion to carefully study over a long period of years, the British Government's Export Credits Guarantee Department (ECGD) strikes me as perhaps the most efficiently and soundly run as well as the most successful.

One strong feature of the ECGD organization is its advisory council. To begin with, the council's membership is made up of outstanding leaders in industry, banking and insurance, heads of concerns which have substantial interests and operations in international trade. The council is required to meet monthly, not yearly or quarterly as we provide. It makes recommendations which affect broad policy issues, such as the attitude to be adopted toward a particular market, or it may discuss the commercial viability of new forms of credit risk insurance coverage offered by ECGD.

The ECGD follows the council's recommendations. ECGD also is in daily contact, when necessary, with the chairman or with the individual members of the council to deal with specific transactions of importance before the ECGD. Of particular significance is the fact that the individual market classifications are settled in each case by this advisory council, whose collective experience provides valuable guidance in this area. As a result, any movement in the grading of a particular market can generally be taken by exporters as a guide to the future trading outlook in that market.

This is an aspect which deserves the most searching consideration in the further development of our own system. The Export-Import Bank Act, section 3(d) provides:

> There shall be an advisory committee of nine members, appointed by the board of directors on the recommendation of the president of the bank, who shall be truly representative of production, commerce, finance, agriculture, and labor.
>
> The advisory committee shall meet one or more times per year, on the call of the president of the bank, to advise with the bank on its program.

Contrast that to the British plan.

The advisory committee which Export-Import Bank should have is one whose individual members should have specialized knowledge, experience, skills, and judgments with regard to world trade conditions in general and particularly in the field of U.S. export trade credits and financing.

Here again, I refer to the criteria provided in title I of S. 558 as to the required qualifications of members of the proposed Trade Development Corps:

> They must be individuals who (1) are or have been in private industry or are otherwise well qualified, (2) possess experience or skills which can be effectively utilized in the operation of the Corps * * *.

It would seem equally important that we require at least the same standards for those constituting the advisory committee of an institution of the type and magnitude of the Export-Import Bank.

The full roster of members of Export-Import Bank's advisory committee should consist of persons who, by reason of their experience in international trade and finance and because of their positions and company affiliations, show a substantial involvement in foreign trade.

I would further recommend that this Export-Import Bank advisory committee be required to meet monthly and that the committee's functions might be paralleled to those which I have just described for the ECGD advisory council.

There are some added improvements that might be thought of. In this connection, I am attaching for inclusion in the record a reprint of my article which appeared in the February 15, 1965, issue of Bankers Monthly magazine.

The article, as you will see, is entitled "How Adequate Are Present Export Financing Facilities?"

I will not attempt to detail the specific suggestions made in that article as to the possible improvements designed to strengthen our existing export credit insurance and guarantee equipment.

While one or more of these suggestions have been put into effect, the remaining recommendations, if adopted, would tend to greatly strengthen our overall international trade financing system.

There are, however, several points which, although touched upon in my article, will bear some further emphasis because of recent discussions I have had with some representative U.S. exporters.

For example:

1. There is a need to liberalize the Export-Import Bank's criteria relative to permitting a certain percentage of components of foreign origin in U.S. exports.

The Foreign Credit Insurance Association (FCIA) insurance coverage on exports from the United States sold on payment terms of 6 months or less permits up to 50 percent foreign content in the goods exported.

However, neither FCIA nor the Export-Import Bank now permits any "foreign-produced content" in U.S. exports of products sold on credit terms in excess of 6 months.

I would like to amend my statement at this point to say that while they will permit a percentage of foreign content in goods sold on a medium-term credit basis, they would deduct the percentage of the product which constitutes a foreign item, which of course gives the

exporter and the Bank a much lower percentage of cover on the entire transaction.

It is becoming increasingly apparent to many U.S. manufacturers that, unless they can include in their exports some foreign produced components (often available at costs below those produced in this country) they will lose highly desirable U.S. export business.

One U.S. manufacturer recently stated to me that, in order to hold his foreign market, he would have to introduce into one of his machines a foreign component which involves in value less than 15 percent of the minimum net factory selling price of the equipment. This equipment is sold on payment terms of longer than 6 months and the exporter needs to insure these sales in order to secure financing from his banker.

Again I want to amend that by saying certainly he can get financing from the bank to the extent that he has credit insurance or guarantees. But the loan would be restricted to the amount for which the insurance is provided. The rest, of course, would have to be done on a recourse basis to the exporter. This is not always acceptable.

Export credit insurance systems in other countries consider exports eligible for coverage under their systems even when the product sold includes foreign components of as much as 30 percent or more of the contract price.

Here again, Senator, I would like to interject that we have a very competitive situation arising in Europe in the Common Market where exports in one country may contain the product of another member of the Common Market for up to 30 percent.

On the other hand, the exporting country will insure up to the full amount of the invoice value, that is, 85 percent, or whatever it may be, and will then look to the other Common Market country which produced the component for reinsurance up to that amount.

To be competitive, we must do something in this area. Another way to look at this is that as long as we have permitted an import (the foreign component) which represents a debit to our balance of payments, why should we not encourage the reexport of that item as a part of an American-produced piece of equipment and thus provide a balance-of-payments credit well in excess of the import debit item?

2. More flexibility should be allowed to the U.S. manufacturer-exporter to negotiate directly with foreign buyers, private and governmental, even though this may involve "project" sales.

The intervention of a U.S. Government agency, such as the Export-Import Bank, no matter how meticulous and capable it may be, in conducting these negotiations tends to weaken the commercial relationships between the U.S. exporter-manufacturer and his buyers abroad.

3. Direct Export-Import Bank project loans to foreign governmental entities at times appear to take precedence over individual requests for financing assistance by U.S. exporters and/or their banks.

A case in point, recently brought to our attention by an important client, referred to direct credits recently granted to a Latin American country for about $20 million. That country has for months been labeled as a "difficult" market for which export credit guarantees and insurance cannot be obtained except on a very restrictive basis.

The question raised by our client in this instance is whether it is in the best interests of the United States to place all or a substantial

part of the available credit in just one or two projects as against allowing a broader spectrum of individual U.S. exporters to obtain guarantees to assist them in holding the market through the financing of a wider range of exports from the United States.

In referring to this type of case, I am, of course, mindful of the fact that a foreign government might bring pressure or influence on the Export-Import Bank to favor one project or one class of exports over another.

4. Another suggestion frequently made to our bank is that the Export-Import Bank or FCIA should be willing to insure transactions which involve credit terms extending beyond 5 years, even though the guarantee or insurance is limited to the first 5 years of the credit.

In other words, the exporter says I am willing to make the sale on 7-year terms. You give me a guarantee for that portion of the transaction which matures within 5 years, and I will carry the remainder of the risk.

We have not been successful in getting that idea over.

It would seem reasonable to expect that, with the added funds and authority to be made available through the passage of title II, Export-Import Bank would be in a better position to accommodate itself more closely to these and similar requirements which many of our large and responsible manufacturers tell us now restrict the expansion of export sales.

I am also attaching to my statement the third edition of a chart entitled "World's Principal Export Credit Insuring Systems." This presents a summary analysis of the credit insuring systems in all principal trading nations.

The CHAIRMAN. It will be included in the record just after your article.

Mr. SCAFURO. This chart is one of the byproducts of the continuous study and research which I have devoted over a long period of years to problems related to the financing of American export trade and to the need for providing our country's exporters with credit insurance and financing facilities at least equal in their scope and effective operation to those available in other principal trading nations.

Lacking such facilities, which have been developed to a high degree in other countries, we cannot successfully compete in world markets.

In examining the content of the accompanying chart and comparing the system of one country to that of another, it should be kept in mind that the "printed word," or the theoretical scope of the protection afforded, is often less important than the manner in which each system is implemented and the general competence and flexibility of its administration.

For these and other reasons, I sincerely feel that the enactment of a provision such as embodied in title II of S. 558, clearly expressing the intent of Congress, should prove most helpful to the Export-Import Bank in providing the kind and degree of assistance that is necessary in these critical times when our country is straining every effort to bring our international payments into balance primarily through an upsurge in the volume of our export sales which will strengthen our economy not only today but in the years ahead.

Thank you, Senator.

The CHAIRMAN. Thank you, Mr. Scafuro. We deeply appreciate your going to a great deal of work in giving us the benefit of all these export credit insurance systems. This will be most valuable to the committee in making the comparisons.

Actually, when we talk about competition in credit terms—I am sure you will agree—it has to be a comparison. We deeply appreciate having this summary of the competing export credit systems for comparative purposes.

As to the bill, of course, we have no great pride of authorship. All bills in Congress, as you know, are laid on the table for modification, advice, and suggestion. You have given us some valuable suggestions for the committee to examine.

On page 7 you discuss at some length the establishment of an interagency committee, and you make some suggestions concerning the committee mechanism. I appreciate these suggestions—we will ask the Export-Import Bank about that, but they have created a small interagency committee which is supposed to be functioning now.

It contains a representative, as I recall it—I will get it exactly from them—the exact names—a member from Treasury, one from Commerce, and the Bank. We will go into that when we discuss it with them with your suggestion of the mechanism.

Referring to page 8 of your prepared statement, I am impressed with the amount of activity and money and attention that Great Britain has paid to this particular matter insofar as their country is concerned. That is over $2.5 billion that they have——

Mr. SCAFURO. In the so-called national interest section.

The CHAIRMAN. Yes. Whereas, as you point out, we are suggesting to begin with a modest fund, comparatively.

One other thing has been bothering this committee for a long time. Coupled with this, the British have a tremendously efficient group of commercial attachés throughout the world and, in particular, in undeveloped countries.

I think in Africa, for example, or any of these emerging countries, they probably have more people working at this within the framework of what you are talking about by a ratio of 5, 6, or maybe 10 times over what we have, and in many cases, 20 or 30 times.

We want to work on that problem separately. I know you will be interested in this. During the war, of course, we transferred our commercial attachés into the State Department for obvious reasons.

After the war was over, it was like pulling teeth out of a hen to get them back where they belonged—in Commerce. The committee has had many controversies about it. We have arrived at a compromise whereby the Department of Commerce trained these people, and then the State Department retained them for housekeeping purposes, but they are actually doing their job—just what the name implies—as commercial attachés.

A problem in the State Department was that the commercial attachés would take a 2-year tour of duty in one place, then they would be thinking about going some place else to be counsul general, or something, and there was no continuity of experience.

We are hopeful that where a man is doing fine in a given geographical area, he will stay there. Many times, he wants to. We have laid the foundation.

That fits into this tool, this whole problem of working out, helping our people work out some of their problems, even though we want to encourage what you also suggest, direct negotiations between our manufacturers and the buyer, and vice versa.

Mr. SCAFURO. If I might add one point, I think it is appropriate. In addition to having an excellent foreign commercial service, the British supplement that with a fairly large staff in the Export Credits Guarantee Department. Between 800 and 1,000 people are in that Department, compared with the staff we have here at the Bank. I think the Bank here, the Export-Import Bank, is doing an admirable job with the limited staff that it has.

Th Export Credit Guarantee Department supplements the commercial attachés in the field with experts who are traveling the markets. They learn firsthand what the general commercial economic situation is.

They are also making direct contacts with buyers who are frequently clients of British concerns. In other words, they are constantly building up a credit background so that when a situation comes up, meaning transactions, they can act on them more speedily.

I have dealt with this in the article. It bears comment here. Whereas between FCIA and the Export-Import Bank, we may have a possible total maximum of 30,000 files, or names on which we have information, actual and prospective buyers overseas, the British have 150,000 files. The same would apply to France and Germany.

I made the suggesttion, and I am backing this up with a personal survey of my own among a number of outstanding companies, as to whether they would be willing to pool their resources and maybe employ Dun & Bradstreet as the agency which would be the recipient of this information, all with the idea of getting not only credit information on companies which are now doing business abroad, but to the extent that we have a prospect, build up our files.

This needs a kind of crash program, putting a team together that will do the job. So that instead of having to wait to see what the background of these buyers is, we can, by referring to the file, have some knowledge of whether we can or cannot act promptly. I think Dun & Bradstreet are prepared to move.

I have also mentioned the subject to the Export-Import Bank. They are interested to learn to what extent industry would be responsive. I think I am getting the answer, and it is "Yes."

The CHAIRMAN. That is a good program.

On page 9 of your statement you go into the business of an advisory committee. I am sure that the committee, when it discusses the bill, will be particularly interested in what you have to say regarding the makeup of that advisory committee, and standards and so on.

The idea that you suggest on the foreign-produced content is one, too, that is a sensitive one, which I am sure you appreciate. I think we have to give more consideration to that because, after all, this whole business has to be a two-way street. It doesn't work otherwise.

Mr. SCAFURO. True. On that point, the inclusion in this one instance of this particular development in the machine made the difference as to whether they would be able to ship the whole component or not.

The CHAIRMAN. I hope you will understand when we talk in title I about the so-called corps, that we are sort of in the thinking stage about its makeup and about what it can do or cannot do, and there are probably a great number of changes or bugs in it that we will have to consider.

It seems to me that its prime feature should be what you also suggest; the corps should help to achieve the flexibility you mention, for U.S. manufacturer-exporters to deal more directly with them. We are hoping that is one of the things they might acomplish, rather than just government to government, or things of that kind.

Mr. SCAFURO. Just to be certain that I have not been misleading in my statement, of course the great percentage of U.S. exports is a matter of direct U.S. exporter-foreign buyer relationship.

The problem areas come into those situations where export credit guarantees, or insurance is asked for in connection with the building of a certain project.

In those cases the situation is labeled as a project and by tradition the Export-Import Bank has for various and good reasons of its own—I can't say that they are not sound reasons—stepped into the picture and said let us deal with the buyer.

In that case, then, the buyer becomes the applicant, and I think there is also some public responsibility here in permitting the buyer then to shop around after he has gotten his credit approved.

Many companies, some of our largest industrial enterprises, having found a project and insured it up to a point, find it extremely difficult to understand why they should then get out, in a sense, and permit the negotiations to proceed and then open the thing up to open bids.

The CHAIRMAN. A proper advisory committee probably would be helpful in making policy in the area in which you suggest there should be decisions concerning large single projects versus a wider spread of exports.

Mr. SCAFURO. Definitely.

The CHAIRMAN. Rather than the bank officials, themselves.

Mr. SCAFURO. Definitely.

The CHAIRMAN. That will be one of the functions of the advisory committee.

Again, I deeply appreciate these charts. They are going to be valuable to us in our considerations. We thank you very much for coming.

Mr. SCAFURO. Thank you, sir. It has been a pleasure being here.

The CHAIRMAN. We will leave the record open in case you want to make any corrections or changes.

Mr. SCAFURO. Fine. I may have. As I said, I have been conducting a little bit of questioning on the side, on my own, on several questions which are pertinent to this bill, particularly with reference to the credit investigation matter. I would like to make that part of the record later on.

The CHAIRMAN. Very well. Thank you so much.

Mr. SCAFURO. Thank you, Senator.

The CHAIRMAN. Off the record.

(Discussion off the record.)

The CHAIRMAN. We will put in the record, following Mr. Scafuro's testimony, a copy of the Irving Trust Co.'s international letter which pretty much supports your position.

(The letter follows:)

[Reprinted from the Feb. 15, 1965, issue of Bankers Monthly—National magazine of banking and investments]

HOW ADEQUATE ARE PRESENT EXPORT FINANCING FACILITIES?

The rapid growth of export trade projected for the years just ahead will require refinement and expansion of the Nation's international financing system. In this article, an expert in this field offers concrete recommendations for the creation of an improved and more readily accessible mechanism

(By Francis X. Scafuro, vice president, business relationships, Bank of America, New York)

Within the next decade the United States will experience a 100 percent expansion of its annual exports—from its present $25 billion level to $50 billion. Our foreign trading and financing equipment must be adjusted to the needs of this tremendous growth.

Specifically, this will require (*a*) ability and willingness on the part of U.S. exporters to sell an increasing volume of goods and services on deferred payment terms; (*b*) readiness and capacity on the part of the American export credit insurance system to absorb and to spread efficiently and economically the resulting heavier exposures to commercial credit and political risks involved in sales to the older, as well as the many newer overseas markets; and (*c*) adequate and readily accessible international financing facilities to tap a variety of sources of loanable funds and to create and sustain a secondary market for both short and medium term international trade finance paper, to assure "liquidity" for export receivables.

It is the purpose of this review to confront these three specific challenges and to set forth concrete recommendations for adoption of measures designed to make available to American business and banking the indispensable credit and financing mechanisms with which to transact the mounting volume of exports on a basis that is sound and mutually advantageous for ourselves and for our trading partners overseas.

EXISTING U.S. PROGRAM

In principle, the U.S. credit insurance system has been styled along the lines of those long established in Great Britain, the major European countries, Canada, and Japan. The United States, in fact, now has two separate and distinct systems operating side by side: A guarantee of medium-term credits operated by the Export-Import Bank of Washington through the international departments of U.S. commercial banks; and the credit insurance system administered by the Foreign Credit Insurance Association (FCIA) of New York, with Eximbank participation.

FCIA, an unincorporated association of more than 70 leading commercial insurance companies, offers the exporter protection for both short- and medium-term credits under comprehensive policies covering the buyer's insolvency or protracted payment default, as well as nonpayment resulting from prolonged exchange transfer delays and other named "political risks," such as war, revolution, or expropriation. If the exporter is prepared himself to assume the commercial credit risks of insolvency and protracted default, FCIA will insure against political risks only.

By endorsement, any FCIA policy may be extended to cover preshipment risks, consignments, and sales from consigned stocks held abroad. The proceeds of any FCIA policy may be assigned to a commercial bank or other other institution financing the transaction.

Bank guarantees.—FCIA short-term policies cover sales of any type product, on terms to 180 days. They require the exporter to insure all or an acceptable spread of his credit sales. The medium-term policies, as well as Eximbank's guarantees, apply only to those products (mostly capital goods) which are

normally sold in international trade on terms of 181 days to 5 years (jet aircraft to 7 years).

Under both medium-term programs, the foreign buyer must make an initial cash payment (normally 20 percent, exceptionally 10 percent) and sign promissory notes for the balance, or financed portion, payable in dollars, at a bank in the United States, monthly, quarterly, or semiannually. In all cases, the exporter retains the uninsured percentage at his own risk.

Eximbank's guarantees are given, not to the exporter as in the case of FCIA, but to a U.S. commercial bank which agrees to finance the export transaction without recourse to the seller.

Unlike the FCIA comprehensive policy, Eximbank covers the commercial bank against only the political risks for the entire life of the transaction, requiring the commercial bank to assume all normal commercial credit risks on the early maturities (ranging 18 to 30 months) of the promissory notes.

FCIA commenced underwriting export trade credits in February 1962, at first sharing the commercial credit risks equally with Eximbank, the latter also underwriting 100 percent of the political risks. Recently, FCIA took over the full commercial credit risk, subject to an agreement whereby Eximbank reinsures the larger commercial risks, besides continuing to carry the entire political risk. Another recent liberalization by Eximbank broadened the discretionary authority of both FCIA and the participating commercial banks in approving certain risks in selected better grade overseas markets without the prior approval of Eximbank.

Eximbank also will extend comprehensive guarantees to commercial banks that finance export of capital goods and equipment for terms up to 12 years. While this coverage differs from the existing medium-term guarantee program in several points, the same eligibility criteria apply:

Guarantees are extended to U.S. banks that are prepared to lend directly to the foreign buyers without recourse to the U.S. exporter.

Banks are not required to assume the commercial risks on the early maturities.

The importer is required to make a downpayment of 10 to 20 percent, with the exporter assuming 15 percent of the remaining balance.

Eximbank provides a guarantee covering 100 percent of the financed portion.

Any time after 5 years, the U.S. bank may offer the outstanding notes to Eximbank, or Eximbank may request the notes.

Eximbank charges a flat 1¼ percent per annum on the outstanding balance, regardless of country. The lending bank, in turn, is expected to charge a prime customer 5½ percent (exceptionally 6 percent) and may not earn more than 4¾ percent interest on the transaction, though it may charge the client a flat commitment fee. Eximbank may require a guarantee from a recognized foreign bank.

Further, Eximbank is prepared to consider applications for either comprehensive or political risk guarantees to cover feasibility studies and other types of services, and leasing or exhibits of U.S. equipment abroad. Through its long-term project loans to public and private entities abroad, Eximbank also directly finances purchases of U.S. capital goods and related services, paid for from the proceeds of these loans.

ROLE OF CREDIT INSURANCE

A recent report issued by the United Nations Economic and Social Council states that export credit insurance is considered vital in many countries and has become an important instrument of commercial policy. The availability of an effective export credit insurance system, it says, has played a very significant role in the expansion of exports from Europe and Japan.

In order that U.S. exporters may be equipped with export credit insurance facilities as effective as those enjoyed by our major foreign competitiors, all necessary steps must be taken to continually improve our system so as to provide the utmost lubrication for our ever-growing requirements for export financing. To be fully effective, these credit insurance facilities must combine all the elements necessary to encourage their support and widespread use by U.S. trading and financing interests. Only in this way can sufficient premium income be developed to permit the quality of service and the breadth of protection required. Only in this way can the insurer develop an earning base that will attract the qualified

personnel necessary to sustain an efficient organization and provide adequate loss reserves.

A need for support.—Any attempt to measure the performance of the existing U.S. program against the foregoing criteria must in fairness give due weight to its relative newness in comparison to the long established credit insuring systems abroad. Within the few years of its operation, both FCIA and Eximbank have progressively broadened the scope of coverage and have endeavored to tailor their facilities more closely to the needs of the users. The results to date, however, show that the program has not yet attracted the required degree of support from the U.S. international trading and financing community.

Eximbank and FCIA together, during fiscal 1964, authorized guarantees and insurance to cover potential shipments equal to approximately 4½ percent of annual U.S. exports of some $22 billion. No figures are available to show to what extent these authorizations were translated into actual U.S. export sales.

By comparison, the Export Credits Guarantee Department (ECGD) insures 25 percent of Britain's annual exports. In France, 11 percent of exports are insured, while the comparable figure in Germany is 10 percent. Canada's Export Credits Insurance Corp. estimates that it covers 50 percent of that country's insurable exports, i.e., those sold on credit terms to countries other than the United States.

Surveys and discussions with representative exporters, bankers and others throughout the country indicate that in many cases their attempts to fit either the Eximbank guarantees or the FCIA insurance into their world trading operations have met with only limited success. Especially is this true of the larger manufacturing concerns which in the aggregate account for a major portion of our sales abroad. For a variety of reasons, they have not been able to get the kind of service, the coverage and the premium charges they would need to make really broad-scale use of these facilities.

Based on these observations, the time appears to be opportune for a thoroughgoing study of our present guarantee and insurance facilities with a view to their prompt revision along lines which will encourage their wider use without impairing their present basic soundness.

SPECIFIC RECOMMENDATIONS

Arrangements should be made for unifying the entire U.S. export credit guarantee and insuring operation in one readily accessible entity, conducted along commercial insurance lines, with adequate authority, and with Government participation limited to overall supervision and control of those aspects of the operation which cannot be undertaken by private enterprise alone.

The Government would continue to limit itself to the underwriting or reinsuring of excess commercial credit exposures beyond the amounts which can be reasonably assumed by the private underwriter; political, catastrophe and other noncommercial risks; and certain relatively large "national interest" transactions, which may not fully meet commercial credit standards, yet which have desirable attributes.

The adoption of these recommendations does not in any way imply the phasing out of Eximbank. Exim would still maintain master control through its determination of "political risk" commitment limits, globally and by country, subject to continuous adjustments of such limits as circumstances and developments justify.

The insuring entity (preferably a reconstituted FCIA) should be an incorporated organization, with its own adequate capital structure. The equity ownership, while preponderantly within the insurance industry, should be available to other appropriate private enterprise sources, such as Edge Act banks. The strongest argument for such a corporation is to bring into it international financing and foreign trade credit management elements which cannot reasonably be expected to exist in a strictly insurance type of association.

The present pool or syndicate arrangement does not assure the permanency or strength that would inhere in a corporate entity, with the capital structure and the other attributes of a strong stock insurance company.

Credit control.—In order to assure sound management, reliable credit and market data, and efficient loss prevention and protective service facilities, the staff of the proposed single underwriting operation would include experienced foreign trade analysts and economists. These experts would keep under continuous review not only the financial and credit status of the insured debtors

but also the political and economic conditions and trends in all customer countries, with emphasis on balance of payment and exchange availability factors.

Foreign credit insurance underwriting requires seasoned personnel no less qualified than is exemplified in the best credit analysts and senior lending officers of our leading international financing institutions. A working advisory council made up of bankers and businessmen active in world trade and finance, could lend invaluable cooperation to the underwriters in dealing with unusual problems.

Commercial credit and the market risks must be expertly and expeditiously evaluated if the underwriting organization is to operate successfully, profitably and ultimately with the lowest possible premium rate structure. This result will be achieved only through increased credit insurance volume with minimum loss ratios.

A single, well organized and adequately capitalized corporate U.S. export credit insurer could therefore become a potent stabilizing mechanism, not only as to the extension of credit, but also in counseling with individual countries and their suppliers to avoid overcommitment of dollar or other hard currency paying capacity.

Credit decisions.—The privately owned and operated insurance entity would be fully empowered to make its own credit decisions, within dollar ceilings for political risk cover assigned by Eximbank globally and by destination country, without need for case by case referral to Eximbank, except for notification of the respective country ceiling committed.

The percentage of the credit risk coverage provided under Eximbank's direct guarantee to commercial banks does not compare favorably with the extent of coverage available to British and certain other European banks. This means that the U.S. bank, because it is required to assume a larger share of the commercial risk on such guaranteed transactions, must encroach on the amount of foreign commercial credit funds which it could otherwise make available at its own risk.

FCIA, on the other hand, does provide comprehensive coverage almost as broad as that provided under the British system, though its policies are subject to certain risk exclusions which might be modified as recommended below.

Direct and unconditional guarantees.—Banks financing medium-term credits on a nonrecourse basis should be provided with direct and unconditional guarantees, constituting a clear-cut guarantee to the bank of payment of the insured percentage, provided the exporter has first insured the transaction with FCIA and the insured shipment has been delivered to and accepted by the buyer without reservation or dispute. Some reasonable added premium might be charged for these unconditional guarantees.

To provide such direct unconditional guarantees to banks, the insurer would need to have assurance of prompt reimbursement by the exporter of any payment the insurer had made to the bank to cover a default which would not qualify as a loss claim under the exporter's own related policy. Generally speaking, a credit insurance policy does not pay claims for losses attributable to the exporter's own negligence or failure to comply with the terms of his sales contract with the foreign buyer. On the other hand, once the buyer has accepted the goods, the financing institution cannot or should not be involved in subsequent controversial situations related to sales contracts or seller's warranties which might lead to nonpayment by the buyer.

Because of this need for some recourse to the exporter in the event of his failure to perform, the insurer should be allowed to exercise full discretion in selecting those exporters in whose behalf it would issue such direct unconditional guarantees to financing institutions.

Applications from banks.—It should be permissible for commercial banks, on behalf of their clients, to assist in preparing, submitting to FCIA and following through on applications for medium-term insurance. For this service, the commercial bank should receive some reasonable compensation from the insurer. In this regard, some legal technicalities might have to be overcome. However, at the very least we might follow the British practice which gives the exporter a choice of either applying through his broker or going to the Export Credits Guarantee Department directly or through his bank.

Minimum rates.—Premium rates should be kept at a minimum to assure the greatest possible usage and spread of risks undertaken. Since inception of the U.S. guarantee and insurance program, two reductions have been made in the

applicable premium rates. However, the rates charged by most European insurers, and in particular the British system, average considerably below ours. In some cases, they approximate 50 percent of the average rate applicable under the U.S. system for short-term comprehensive insurance.

The allocation of political risk premium might approximate Eximbank's administrative costs only, because Eximbank already has built up very sizable reserves from its 30 years of operation. A substantial portion of this existing reserve might be specially earmarked for contingencies under Exim's "political risk" liabilities for outstanding guarantees. Rates could always be readjusted should the existing reserves be seriously impaired.

Buyer information.—To avoid delays in establishing short-term special buyer credit limits and in approving medium-term credit insurance applications, FCIA should be provided with funds necessary to enable it to rapidly expand its credit files to include information on the largest possible number of actual and prospective overseas buyers of American products. A crash program should promptly be initiated to do whatever is necessary to overcome this deficiency within the shortest possible time.

More flexibility and broader coverage of risks should be provided:

To include short-term export sales which are billed in fully convertible foreign currencies.

Under appropriate conditions, to cover payment in dollars or fully convertible currencies of accounts receivable secured as a result of construction work performed abroad by American firms, royalties, lease rental fees, and other services which cannot be insured with commercial insurers or under the AID investment guarantee or other U.S. Government programs.

In principle, I understand, Eximbank is prepared to provide guarantees for the above category of transactions, but in practice few, if any, guarantees have been issued to cover services of this type. Consequently, more emphasis should be placed on developing guarantees or credit insurance to cover receivables arising from overseas business generated by contracts of the above nature.

To cover costs of market penetration, to spur more energetic and broader development of problem markets. This type of coverage, available in other countries, would provide partial reimbursement for advertising and other overseas markets development costs which fail to produce the projected sales volume over a reasonable time period. This type of coverage is needed by American business, particularly medium and smaller sized enterprises, which will have to take a more direct hand in the overseas marketing of their products.

To cover up to 100 percent of the balance payable on any credit-insured sales when terms of payment run 3 years or more and when the installment payments for the first 2 years (and covering a substantial proportion of the credit) have been met pursuant to contract provisions. Such a provision would release further credit limits by exporters.

To permit medium-term sales of capital goods having a foreign content of not more than 30 percent, coverage should be available at least to the extent of the U.S. content of the goods.

For acceptable business with creditworthy buyers whose business cannot be insured up to the usual percentage because the contract price is in excess of predetermined country or buyer dollar ceilings and when the exporter is prepared to carry the excess at his own risk.

To cover, without exceptions, all permissible U.S. exports of goods and services. If the export is licensed, it should be insurable.

Present exclusions.—Both FCIA insurance and Eximbank guarantees now exclude from coverage any losses resulting from certain defined causes. For example, they exclude loss arising from unwillingness of the buyer to accept the products shipped.

The United Kingdom, Canada, and Australia provide for coverage of the buyer's nonacceptance of goods when in violation of contract. Under these circumstances, the exporter bears, for example, as a first loss 20 percent (Canada 15 percent) of the contract or gross invoice value, while the insurer bears 85 percent (Canada 90 percent) of the remaining loss with maximum liability of 34 percent (Canada 40 percent) of the contract or gross invoice value. True, this coverage is minimal but usually sufficient to cover losses incurred in repossessing and reselling rejected goods. Similar protection should be provided to U.S. exporters.

Reinsurance agency.—To round out the systems of export credit insurance now operating in all the major industrial exporting nations, and to provide safe-

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guards against undue extensions of credit to any one country, there should be established an international agency (possibly under U.N. or International Monetary Fund auspices) to provide a multinational medium for reinsurance of "political risks" (covering inconvertibility, etc., in medium-term credit sales).

In an address delivered November 16, 1964, before the National Foreign Trade Convention in New York, the Managing Director of the International Monetary Fund, Pierre Paul Schweitzer, stated:

"In themselves, export credits serve a useful, and indeed a necessary, function. However, we are finding that increasing difficulties have arisen, because of excessive resort to borrowing in this form by some developing countries whose balance-of-payments positions have become increasingly burdened by debt-servicing obligations. We shall be looking for possible ways of assisting in cooperative action, to solve this very difficult and delicate problem."

Perhaps one way to meet this problem would be to create an "International Export Credits Political Risks Reinsurance Agency" which, by covering the "transfer risks" involved in sales, would create a central point of control to measure the extent of external obligations being contracted by any one country toward all supplier nations.

Liquefy financing.—As far back as September 8, 1960, in an address before the Milwaukee World Trade Club, I suggested certain changes in our international banking system to "liquefy" medium-term export financing. Stated briefly, these suggestions, which are still pertinent, envisaged a three point plan:

(1) Amendment of the Federal Reserve Act and regulations to permit commercial banks, including Edge Act banking corporations, to accept drafts; that is, create bankers' acceptances, for terms or periods up to 5 years from the date of shipment, provided the underlying financial obligations are effectively covered by comprehensive credit insurance.

These longer term drafts would be drawn on and accepted by American banks with maturities corresponding with prevailing extended installment credit terms for exports of manufactured goods. This broadening of the bankers' acceptance base would go a long way toward facilitating the flow of medium-term money into export financing at the most economical rates. There would be an investment market for prime bankers' acceptances at discount rates commensurate with the maturity of each acceptance, the insured nature of the obligation and the standing of the accepting bank.

(2) Inaugurate a new system of private funding or refinancing of insured export receivables.

A representative group of our leading U.S. international banks might be encouraged by the Government to cooperate in a joint venture to create a new super Edge Act "Export Finance Rediscount Corp." to establish a common rediscount pool for insured medium-term international trade financing paper.

This new institution would confine itself to rediscounting insured export finance paper for banking institutions, with recourse to them. This recourse should be acceptable to the commercial banks if the rediscounted medium-term export receivables were comprehensively guaranteed under an effective credit insurance policy.

Such a well sponsored and adequately capitalized Edge Act rediscount corporation should have little or no difficulty in floating sizable issues of bonds or debentures at reasonably low interest rates to tap the money market for funds with which to purchase insured export receivables from banks. These super Edge Act company obligations would constitute gilt-edged securities, because they would be collateralized 100 percent by export trade bills, adequately credit-insured and guaranteed by the endorsement of prime American banks.

(3) To round out the plan for a modernized U.S. system of international trade credit, there is need for a Federal Reserve type of central rediscounting facility for international trade finance paper to supplement and support, when necessary, the private refinancing corporation described above.

Our commercial banks and other lending institutions, as well as the proposed super Edge Act rediscounting corporation should, in times of money stringency, have access to central rediscounting facilities (at Eximbank or at the Federal Reserve banks) for insured medium-term receivables along the lines of the medium-term rediscounting arrangements now available at the Bank of England and other European central banks. Such central rediscounting facilities should be at rates low enough to permit the new rediscount corporation and the commercial banks originating the paper a margin of profit sufficient to induce them

to negotiate and manage such medium-term credit obligations. The adoption of the above three-point plan would streamline our international trade financing system, and would open up to it large reserves of funds thus creating the indispensable secondary market for our export finance paper.

ROLE OF COMMERCIAL BANKS

Most of our leading commercial banks have for years been progressively expanding their global facilities for servicing international trade and investment. Through the enlargement of their international departments, the establishment of Edge Act subsidiaries, export-import factoring divisions, branches and affiliates abroad, and in many other ways, they have greatly improved and diversified their services to American international business. However, it is doubtful whether there is an appreciation of the significant extent to which our banks already provide what amounts to nonrecourse financing to exporters.

For example, they issue letters of credit in favor of the American supplier in sole reliance on the credit of foreign banks. They extend lines of credit to the foreign distributors and customers of U.S. exporters thus providing the dollar funds to pay for their imports from U.S. principals. The aggregate amount of these commercial bank credits in favor of, or for the benefit of, U.S. exporters (and not covered by export credit insurance or Eximbank guarantees) probably runs into billions of dollars outstanding at any one time.

Studies of the counterpart facilities in the United Kingdom, France, Germany, the Netherlands and other exporting nations long since convinced me that a comprehensive, flexible, efficiently administered credit guarantee scheme constitutes the basic cornerstone upon which is constructed the kind of financing mechanisms required to meet today's international trade needs.[1]

Though the existing FCIA-Eximbank insurance and guarantee facilities represent a commendable forward step in the modernization of our foreign trade financing equipment, it is clear that they do not yet fulfill their original intent of putting American world traders and bankers on a full equality with their foreign competition. Further improvement is needed and time is of the essence, for the wherewithal to balance our international payments must come primarily from a continued growth in our favorable trade balance.

Added inducements.—While a major determinant in the success of a country's or a company's export marketing program is the effectiveness of its credit and financing facilities, some of our major European competitors offer other inducements or forms of assistance to their exporters, principally through rebate of taxes on goods exported.

The Congress should be urged to enact legislation to reduce, to say 38 percent, corporate income and other business taxes attributable to export profits; or Congress might permit the chartering of a new type of a partially tax-exempt "International Trade Corp. (ITC)" based in and operating from the United States. Such ITC corporations should be given reasonable tax exemptions on income earned on sales to buyers outside the United States. These tax advantages should at least equal those now available to the Western Hemisphere Trade Corp., or the Export Trade Corp. provided under the 1962 Revenue Act, but be free from the diverse and complex regulations which now fetter their transactions.

Particularly in Great Britain and other Western European countries, there are schemes for tax rebates or remissions of taxes to which there is not as yet a U.S. counterbalance. A plan for reduction of U.S. income taxes on profits derived solely from export sales seems to offer a logical means of equalizing opportunities for the American exporter.

The several proposals I have outlined are intended not as a panacea but mainly to point the way to modernized policies and procedures, the adoption of which should enable our exporting firms and their financing institutions to more effectively cope with the challenges implicit in the vast and rapid expansion of our international business in the years ahead.

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[1] The author's doctoral dissertation, "Comprehensive Political and Commercial Risk Guarantees for American Export Trade Credits," Graduate School of Business Administration, New York University, 1959 (unpublished).

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

Provides all this information...

Insurer
Type of Organization
Advisory Body
History
Finances
Exposure Limits
Eligibility Criteria
Risks Insured
Types of Policy
Scope of Cover
Premium Rates
Requirements (Whole Turnover—Credit Data)
Assignability
Waiting Period
Percentage Annual Exports Insured
Financial Operating Results

...about current systems in 23 countries

Australia
Austria
Belgium
Canada
Denmark
Finland
France
West Germany
Hungary
India
Ireland
Israel
Italy
Japan
Netherlands
Norway
Pakistan
South Africa
Spain
Sweden
Switzerland
United Kingdom
United States

...with explanatory notes and comments

EXPLANATORY NOTES AND COMMENT

This is the third edition of the Chart summarizing the World's Principal Export Credit Insuring Systems, first published in 1959 and revised in March, 1962.

The content of the Chart is based primarily upon information supplied directly by each of the named credit insuring organizations, supplemented in some cases by data gleaned from official records and other sources.

Besides up-dating and amplifying the information with respect to the countries previously covered, this issue summarizes the systems of two countries – Finland and Pakistan – which have initiated export credit insurance programs since the 1962 edition. Greece, New Zealand and one or two other countries have announced their intention of providing their exporters with this type of credit protection, but their plans have not yet become operative.

Not included in the Chart are two countries which now operate export credit insurance schemes, though on a somewhat limited scale. One of these, *Czechoslovakia*, has a State Insurance Institute (Statni Pojistovna), but its management has informed us that, since its credit insurance business is "on a different basis than that of other countries" meaningful data for inclusion in the Chart cannot be supplied.

Similarly, *Poland*, which has a Government scheme initiated in 1963 by "Warta" Insurance and Reinsurance Co., Ltd, also operated along state monopoly lines, has not responded to requests for the type of data necessary for presentation in the Chart.

The publisher is keeping in touch with global developments in this export credit field with a view to reporting significant events in subsequent revisions or supplements to the Chart. The importance of keeping informed of such developments is today well recognized by businessmen everywhere. A recent report by the Committee for Industrial Development of the United Nations Economic and Social Council said that export credit insurance is considered vital in many countries dependent on foreign trade and has become "an important instrument of their commercial policy." This report went on to say that the availability of export credit insurance has undoubtedly had a significant role in the expansion of exports in the post-war period.

In all, this current Chart capsules the salient features of thirty-one insuring entities in twenty-three countries.

Though each of the subject headings with its accompanying data are generally self-explanatory, because of the need for brevity and like restrictions imposed by this form of presentation, the following notes and comments amplify and further clarify the Chart content:

SUBJECT G – ELIGIBILITY CRITERIA.

(a) *Eligible Insureds (Exporters).* Most insurers make no distinction as to the nationality of the exporter-policy-holder. As long as he is resident of and doing business in the insurer's country, and is exporting that country's goods or services, he qualifies. This enables an American owned or controlled plant in the United Kingdom, for example, to insure with ECGD (the British Government's Export Credits Guarantee Department) his credits related to sales of goods produced in and shipped from the British plant. Similarly, an American branch or affiliated plant in Canada may insure its shipments from that country under a policy issued by Canada's Export Credits Insurance Corporation. A British, Canadian, French or other foreign owned concern operating in the United States, and selling U.S. products abroad for dollars, may likewise protect its export credits through FCIA (Foreign Credit Insurance Association) of New York, or through Eximbank's guarantee program. Most other countries observe this same principle. Italy, though, has a somewhat modified arrangement whereby the percentage of insurance cover is governed by the ratio of Italian capital represented in the foreign controlled exporting firm. For example, if the ratio of Italian capital amounts to 60 percent of the total investment, the normal cover of 85 percent is reduced to 51 percent.

(b) *Eligible Products.* Since the prime objective of each country's system is to promote exports of its own products, credit insurers generally, especially when supported by government funds, require that the exported goods, to be eligible for insurance, be wholly or substantially of national origin. More recently, however, there has developed a noteworthy trend towards reciprocal arrangements among insurers in the industrially developed countries to apply greater flexibility to this "national origin" requirement, especially as related to capital goods sold on medium credit terms. For example, in each of the six European Common Market (EEC) countries – Belgium, France, Germany, Italy, Luxembourg and the Netherlands – the credit insurers may now provide insurance for export transactions involving a more substantial percentage of foreign content to be sub-contracted for or supplied by another EEC country; or, by agreement, this flexibility may be extended to include Austrian, Swedish or Swiss content. For instance, HERMES, the German Government's credit insuring agency, normally requires that capital goods, to be eligible for its cover, have 90 percent German content, but this may be lowered to 70 percent if the foreign content is EEC, Austrian, Swedish or Swiss. Under such an arrangement, HERMES would insure 70 percent of the order while the credit insurer in the other agreement country (OND in Belgium, for example) would insure the other 30 percent. The values involved in the insured transaction and certain other criteria affect the permissible percentage of foreign content.

The Canadian Parliament gave recognition to this same principle when, in a 1964 amendment to the Export Credits Insurance Act, it empowered EXPORT CREDITS INSURANCE CORPORATION (ECIC) to reinsure a certain portion of an insured risk with, or to accept reinsurance from, any other export credits insurer. Generally, Canada's ECIC has been prepared to insure Canada's exporters provided the exported products represented not less than 60 percent Canadian content. Under the amendment referred to, ECIC could, in principle, insure, for the full contract amount, a Canadian manufacturer who received an order for equipment which might have to include, for example, U.K., or U.S. content of 50 percent. By mutual agreement, ECIC might then reinsure the foreign portion with the credit insurer in the country of origin of the foreign content. ECIC would then collect the whole premium from the Canadian exporter and pass 50 percent of it to the foreign reinsurer. If a loss developed, ECIC would pay the Canadian exporter and collect half from the foreign insurer. Any salvage recovery would be equally shared with the foreign insurer.

In the United States, FCIA's Short Term policies require that eligible products be produced or manufactured in the United States to the extent that at least half the value, exclusive of price mark-up, represent labor and material exclusively of U.S. origin. FCIA's medium-term policies and Eximbank's medium-term guarantees to commercial banks require eligible products to be "produced or manufactured in the United States."

SUBJECT H. PRINCIPAL RISKS INSURED.

Credit insurers generally divide their risks into the two main categories of "Commercial" and "Political".

Commercial risks always include actual or de facto insolvency of the buyer; also, in most cases, "protracted payment default", i.e. the buyer's failure to pay by 6 months (in some cases by 12 months) from due date, for goods accepted.

Political Risks, though variously defined by individual insurers, generally include exchange transfer delay (government action which unduly delays conversion and transfer to the exporter, in the currency billed, the buyer's local funds deposited in payment); losses due to war, revolution, civil disturbance; cancellation of valid export or import permit, other government actions beyond control of buyer or seller which prevent or delay payment beyond stipulated periods.

Most credit insurers cover both commercial and political risks under comprehensive policies. Some allow for optional separate coverage of commercial and political risks. In all countries, political risks cover is supported by government funds, since no private insurer can afford to insure political risks for its own account.

Risks excluded generally relate to those which can be covered under marine, fire or other types of insurance policy; also, with few exceptions, losses resulting from the buyer's non-acceptance of products or from an unresolved trade dispute.

SUBJECT I – TYPES OF POLICY.

Credit insurers generally underwrite short-term transactions (payable within 180 days) under global or "whole

turnover" policies. That is, the exporter is required to insure his entire sales to all markets, made on credit terms, or at least an approved proportion of such sales. The obvious reason is that this "whole turnover" principle attracts a sufficient volume of underwritings to bring into play the basic insurance principle of the law of averages. It gives the insurer a fair volume and spread of risks, without adverse selection, thus enabling him to hold premium charges to reasonable levels, and to provide broader coverage within discretionary credit limits allowed to the exporter, without requiring specific approval of each account.

This "whole turnover" principle, however, is not generally applied to medium-term transactions (181 days to 5 years). These usually involve sales of capital goods of high unit value, hence are insured under specific policies on a case-by-case basis.

SUBJECT J – PERCENTAGE OF COVER

Another fundamental credit insurance principle is that the exporter shall always retain, for his own account and uninsured, some percentage of the insured receivable. The purpose here is to require the seller to carry some part of the risk throughout the life of the transaction, so that he always has some financial stake in the collectability of his accounts. Otherwise there might be a tendency to neglect the normal precautions essential to sound credit and collection controls.

SUBJECT K – LENGTH OF CREDIT PERIOD

Insurers try to hold payment terms to those customary in international trade for the type product, the market and the amount involved. Under Short-term policies, quick turnover items such as raw materials and consumer goods are covered on terms ranging from c.a.d. to 6 months. For consumer durables, terms to 12 months may be permitted. Medium-term policies, insuring a specific transaction or repetitive sales to one buyer, usually require that the buyer make an initial cash payment, e.g. 10 to 20 percent, then give notes or drafts for the credit portion, to mature monthly, quarterly or semi-annually over a period of one to a maximum of five years (seven years for certain jet aircraft or ships), the credit period depending on the contract price, the useful life of the product and other individual considerations.

SUBJECT N – CREDIT DATA REQUIREMENTS

Most insurers require the exporter to provide himself with the same information to qualify the buyer's creditworthiness as he would need if he carried his own risks. Often, the credit insurer will supplement the exporter's information with data obtained through independent investigation. Also the exporter is generally expected to adhere to normal practice in the protection and collection of overdue insured accounts. This is in keeping with the principle that credit insurance is never predicated on the assumption that the seller can substitute an insurance policy for the exercise of normal care, prudence and business judgment. Credit insurance fortifies internal credit management by providing a double check on customer, market and other inherent credit risks, and by protecting against those perils which cannot be foreseen or otherwise provided for.

SUBJECT O – ASSIGNABILITY OF POLICY PROCEEDS.

Though the credit insurer itself provides no direct financing, it does generally permit the exporter to assign to commercial banks and other financing institutions any amounts that may become payable under the policy. With his accounts receivable insured, the exporter is generally able to arrange financing on more favorable conditions than would otherwise apply.

ASSOCIATIONS OF CREDIT INSURERS

Most export credit insurers belong to one or both of the following international associations of credit insurers:

1. UNION D' ASSUREURS DES CREDITS INTERNATIONAUX (generally known as the BERNE UNION).
2. INTERNATIONAL CREDIT INSURANCE ASSOCIATION (ICIA).

Berne Union members are for the most part government owned or supported organizations, underwriting both export credit and political risks, whereas ICIA members are principally commercial insurance companies writing both domestic and export credit risks for their own account, and in some cases also collaborating with their respective governments in the export credit insurance field.

Each of these Associations serves as a focal point through which its members interchange information on matters of common interest including developments affecting individual buyer and market risks. The two Associations work in harmony, generally holding their annual meetings at the same time and place. One of their common objectives is to avoid a credit race by keeping payment terms and other factors governing export credit risks within reasonable standards and time limits. Berne Union members have a mutual "understanding" not to insure supplier credits on terms exceeding 5 years, except in isolated special cases, which are to be reported to other members.

Longer Term Credits

In recent years, rising demands from developing countries for credits related to larger scale projects to be amortized over a term longer than 5 years, and the competition among industrial countries to outbid each other on these projects, have resulted in new forms of guarantee to cover tied financial credits extending well beyond the 5-year limit generally agreed to for normal trade credits involving sales of plant equipment and other capital goods. Fearing that these long-term financial credits might lead to excessive credit competition among the capital exporting countries, the Council of the European Economic Community (EEC) in May 1962 decided to recommend a procedure for private consultation among its members for credits exceeding the Berne Union five year limit. This was regarded as a further step towards harmonization among the various international credit insuring systems. Such consultation now takes place not only in the Coordination Group of EEC but also in the Group on Export Credits and Credit Guarantees of the Organization for Economic Cooperation and development (OECD).

In the accompanying Chart, Berne Union members are indicated by the symbol ♦;

ICIA members by the symbol ●

Although the content of this publication is based on information from sources considered reliable, it is presented without any warranty as to its accuracy or completeness.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS
(From available documentation November, 1964)

TYPE OF ORGANIZATION HISTORY

SUBJECT	(1) CANADA	(2) FRANCE	(3) WEST GERMANY	(4) ITALY	(5) JAPAN	(6) UNITED KINGDOM	(7) UNITED STATES
A. INSURER	Export Credits Insurance Corporation (ECIC) ♦	Compagnie Francaise d' Assurance pour le Commerce Exterieur (COFACE) ♦ ●	(a) Hermes Kreditversicherungs A/G. ♦ ● and Deutsche Revisions und Treuhand A/G, as agents for German Federal Republic. Gov't. bears entire risk. (b) Gerling-Konzern (Speziale Kreditversicherungs, A/G (GKS). ●	(a) Istituto Nazionale delle Assicurazioni (INA) ♦ (b) Societa Italiana Assicurazione Crediti (SIAC) ♦ ●	Export Insurance Section, International Trade Bureau, Ministry of International Trade & Industry (MITI)	(a) Export Credits Guarantee Department (ECGD) ♦ (b) Trade Indemnity Co., Ltd. (TIC) ♦ ●	(a) Foreign Credit Insurance Association (FCIA) ♦ (b) Export-Import Bank of Washington (EXIMBANK) ♦
B. TYPE OF ORGANIZATION	Government owned Corporation.	Private joint stock company owned by insurance companies and nationalized banks.	(a) Hermes is private stock company (estab. 1917). Deutsche Rev. und Treuhand is an auditing and trust co. (b) Private Stock Co. Insures domestic and export credits.	(a) Gov't. Insurance Institute (b) Private Company owned by Italian Insur-Companies. Insures domestic and export credits.	Gov't. Dept.	(a) Gov't. Dept. directly responsible to President of Board of Trade. (b) Private Co. insuring domestic and export credits.	(a) Unincorporated association of leading Commercial Insurance Companies administering U.S. export credit ins. program in behalf of insurance industry and of (b) (b) U.S. Gov't. owned Corporation making long term project loans, issuing commodity credits & financing and Guaranteeing medium term trade credits.
C. ADVISORY BODY	Advisory Council – appointed by Gov't. Represents primary and secondary industry and banking.	Commission des Garanties et du Credit au Commerce Exterieur – Gov't. appointed.	(a) Interministerial Committee (aided by exporters and bankers) controls underwriting policy. (b) Not applicable	(a) 18 member interministerial committee represents Gov't. Depts., industry, agriculture & insurance. (b) Not applicable.	Export Insurance Council, appointed by MITI – members representing Government and foreign trade, finance & insurance interests.	(a) Advisory Council – 13 representatives of Gov't. banking, insurance, industry & commerce. (b) Not applicable.	(a) Governing Committee of 9 member companies. (b) Board of Directors, 5 members – appoints Advisory Committee, 9 members representing industry, commerce, finance, agriculture and labor.
D. WHEN INITIATED	Legislation (Export Credits Insurance Act) 1944. Amended 1946, 1948, 1953, 1954, 1957, 1958, 1959, 1960, 1961, 1962, 1964. Commenced operation 1945.	1928 – by Gov't. Present company estb. 1948.	(a) Legislation, August 1949, initiated present system – since amended several times. (b) 1956	(a) Legislation, Dec. 1953 – Revised July, 1961. Commenced operation 1954 (b) 1927 – Reorganized 1948.	1930. Present system, March 31, 1950 (Export Insurance Law)	(a) 1919. Present system Export Guarantees Act. 1949. Amended 1952, 1957, 1959, 1961, 1964. (b) 1918	(a) February, 1962 (b) 1934 – Reorganized 1945. Export credit insurance powers expanded by Public Law 87-311, Sept. 26, 1961. Present program of medium-term guarantees to banks initiated Oct. 27, 1961, Since Feb., 1962 has participated in export credit insurance progra – of FCIA (a). Public Law 88-101 Aug. 20, 1963 amended Eximbank Act of 1945 & extended life of bank for 5 years from June 30, 1963.

CURRENCY UNITS & SYMBOLS – APPROXIMATE U.S. DOLLAR VALUES

CANADA – Dollar – C$	=	$0.925
FRANCE – Franc – F.	=	0.20
W. GERMANY – D. Mark – D.M.	=	0.25
ITALY – Lira – L	=	0.0016
JAPAN – Yen – Y	=	0.0028
UNITED KINGDOM – Pound – £	=	2.80
UNITED STATES – Dollar – $	=	1.00

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WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

INSURER
TYPE OF ORGANIZATION
HISTORY

SUBJECT	(8) AUSTRALIA	(9) AUSTRIA	(10) BELGIUM	(11) DENMARK	(12) FINLAND
A. INSURER	Export Payments Insurance Corporation (EPIC) ♦	Oesterreichische Kontrollbank, A/G. (OKB) ● As trustee for government.	(a) Office National du Ducroire (OND) ♦ (b) Cie. Belge D'Assurance Credit (COBAC) ●	Eksportkreditradet (Export Credit Council) ♦	Export Guarantee Board (Vientitakuulaitos) ♦
B. TYPE OF ORGANIZATION	Autonomous Government Corporation.	Refinancing institution owned by nationalized and private banks.	(a) Autonomous Government Corporation (b) Private Corporation insuring domestic credits for own a/c and Western Europe export credits in cooperation with OND.	Government Agency.	Gov't. Agency, created under Law 479 and Act 481 Sept. 14, 1962, as section of Ministry of Commerce and Industry.
C. ADVISORY BODY	Consultative Council – 10 members.	Advisory Council representing National Bank and Ministries of Finance and Commerce.	(a) Governing Board – 8 members, appointed by the King. (b) Not applicable.	Council consists of Chairman and representatives of trade organizations, the National Bank and interested Ministries – nominated by Min. of Commerce.	Board of Managers (appointed – 3 year term) appoints Executive Board, a Director and other officials.
D. WHEN INITIATED	Established by Act of Commonwealth Parliament 1956. Commenced operation 1957.	Legislation 1950 and 1954 – amended 1959. Commenced operation 1953.	(a) 1921 – Reorganized 1939. Amended 1962 – 1963. (b) 1929.	Legislation – Act. No. 145, of April 4, 1960, amended prior scheme which commenced 1920.	January, 1963.

CURRENCY UNITS & SYMBOLS –
APPROXIMATE U.S. DOLLAR VALUES

AUSTRALIA – Pound – A £	=	$2.24
AUSTRIA – Schilling – AS	=	0.04
BELGIUM – Franc – B.F.	=	0.02
DENMARK – Krone – KR	=	0.15
FINLAND – Markka – FM	=	0.31

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WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

INSURER
TYPE OF ORGANIZATION
HISTORY

SUBJECT	(13) HUNGARY	(14) INDIA	(15) IRELAND	(16) ISRAEL	(17) NETHERLANDS
A. INSURER	Allami Biztosito (Insurance Enterprise of the State).	Export Credit & Guarante Corpn., Ltd. (E.C.G.C.) ♦	Irish Group Credit (Political Risks) Underwriting Committee ●	The Israel Foreign Trade Risks Insurance Corporation, Ltd. (IFTRIC) ♦	Nederlandsche Credietverzekering Maatschappij, N.V. (NCM) ♦●
B. TYPE OF ORGANIZATION	State Enterprise	Government owned corporation.	Government plan for insuring political risks only – administered by committee composed of 4 private companies – 3 of which also insure commercial credit risks for own account. No company issues combined policy covering both risks.	Government owned corporation.	Private company, owned by banks and by Dutch and foreign insurance and reinsurance companies. Political risks and certain commercial risks are reinsured by government.
C. ADVISORY BODY		Board of Directors represents Government and private industry. Major policy matters require Gov't. approval.	Chairman elected bi-annually from 3 commercial risk insurers, presides over committee.	Directors appointed by Minister of Trade & Industry, represent Gov't. Departments, insurance companies, banking.	Rijkscommissie, representing Government, central bank and private business, guides general policy.
D. WHEN INITIATED	1955	January 15, 1964, present corporation (ECGC) succeeded Export Risks Insurance Corp., Ltd. (ERIC) which commenced operation October, 1957.	1953	1958 – Foreign Trade Guarantees Law – extended June 25, 1963.	1925 – present plan 1932.

CURRENCY UNITS & SYMBOLS –
APPROXIMATE U.S. DOLLAR VALUES

HUNGARY – Forint – F	=	$0.08
INDIA – Rupee – R	=	0.21
IRELAND – Pound – £	=	2.80
ISRAEL – Pound – 1£	=	0.34
NETHERLANDS – Florin (Fl.) or Guilder (G)	=	0.28

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WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

INSURER
TYPE OF ORGANIZATION
HISTORY

SUBJECT	(18) NORWAY	(19) PAKISTAN	(20) SOUTH AFRICA	(21) SPAIN	(22) SWEDEN	(23) SWITZERLAND
A. INSURER	Garanti – Institutett for Exportrreditt (Export Credit Guarantee Institute) ♦	Export Credit Guarantee Scheme (ECGS) – a div'n. of Pakistan Insurance Corporation. ♦	Credit Guarantee Insurance Corporation of Africa, Ltd. (CGIC) ♦●	(a) Cia. Española de Seguros de Credito y Caucion, S.A. (CESCC) ♦● (b) Consorcio de Compensacion de Seguros (CCS)♦	(a) Export Kredit Namnden (EKN) (Export Credits Guarantee Board) ♦ (b) Svenska Kredit Forsakrings A/B. (Svenska Kredit) ●	(a) Bureau Pour la Garantie Contre Les Risques a L'Exportation (ERG) ♦ (b) The Federal Insurance Co., Ltd. ●
B. TYPE OF ORGANIZATION	Government Agency	Government Scheme, administered by Pakistan Insurance Corporation (Semi-Gov't. Corp.).	Private Company – owned by insurance and reinsurance Companies and Banks – Reinsures political risks with Government.	(a) Private Insurance Co. – Also insures domestic credits. (b) Government Agency	(a) Government Agency. (b) Private Insurance Co. covering domestic and export credit risks.	(a) Gov't. Bureau administered by mixed (gov't. and private) Committee. (b) Private Company – member of "Winterthur" Insurance Group. Also insures marine, fire, etc. risks.
C. ADVISORY BODY	Storting (Parliament) sets functions and liability limits.	Committee, representing. Government, insurance and industry.	Committee representing Government and Reserve Bank.	(a) Board of directors representing Gov't., banking, insurance, industry, labor, etc. (b) Managing Board representing Ministries of Commerce, Finance, etc. controls policy.	(a) Board, appointed by King-in-Council, representing Gov't., Central Bank and private banks, industry, exporters. (b) National private insurance Inspectorate (Gov't. agency).	(a) Committee of 6 – 3 represent industry – 3 Government. Chairman – representing Government – has deciding vote. (b) Not applicable.
D. WHEN INITIATED	1922 – Reorganized 1929–1934, 1948, 1960, 1962.	Legislation 1962. Commenced operation March 27, 1962.	November, 1958	(a) 1929 – Reorganized Nov. 3, 1960. Present plan Jan, 1962. (b) Dec. 1952 – Reorganized Nov. 1960. Present plan Sept. 1962.	(a) 1933 Act of Parliament. Present system May, 1959. (b) 1928 – Reorganized 1950.	(a) 1934 – Reorganized 1959 – 1961. (b) 1906 – expanded 1963/1964.

CURRENCY UNITS & SYMBOLS – APPROXIMATE U.S. DOLLAR VALUES

NORWAY – Krone – Kr	= $0.14
PAKISTAN – Rupee – R.	= 0.21
SOUTH AFRICA – Rand – R	= 1.40
SPAIN – Peseta – Pta	= 0.0168
SWEDEN – Krona – Kr	= 0.1948
SWITZERLAND – Franc – Fr.	= 0.2318

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WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

SUBJECT	(1) CANADA	(2) FRANCE	(3) WEST GERMANY	(4) ITALY	(5) JAPAN	(6) UNITED KINGDOM	(7) UNITED STATES
E. CAPITAL FUND	Auth. and subs. C$15 million. Paid C$5 million plus: $3.25 million earned surplus & $5 million underwriting reserve (12/31/63).	F. 2.5 million, plus reserves of over F. 29 million.	(a) No fixed sum. Gov't. appropriates annual fund to cover needs. All premiums accrue to Federal Treasury. (b) Paid capital DM 8 million, reserves DM 5.7 million.	(a) No fixed sum. Gov't. guarantees all risks within stipulated annual budget. (b) Auth. and paid capital L. 250 million.	Capital Fund (March 31, 1962) Yen 3 billion, surplus Yen 2.5 billion.	(a) No fixed capital. Annual budget estimates income and outgo. Any surplus accrues to National Treasury. ECGD accumulates no reserves. (b) Capital £600,000. Reserves £400,000: undiv. profit £300,808: total £1,300,808 (Dec. 31, 1963).	(a) No fixed sum. As of Dec. 31, 1963, member companies had subscribed $2.9 million. (b) $1 billion capital, plus $6 billion authority to borrow from U.S. Treasury.
F. MAXIMUM LIABILITY (EXPOSURE) LIMIT	For own a/c, C$200 million; plus C$600 million for Gov't. a/c, under Section 21 of Act. Total $800 million. (None for single debtor.)	No global limit, though normal credit limit per exporter per buyer is F. 6 million. No fixed limit for non-commercial risks. Gov't. guarantees net und. deficit if 10% in excess of premium income.	(a) DM. 16 billion for export credit insurance. DM. 9 billion for capital investment, financial credits and consolidation agreement guarantees. No fixed limits per debtor or country. (b) No specific limits.	(a) L. 300 thousand million for 1963/4. No limit per buyer or per country. (b) No specific limits.	Gov't. sets limit each fiscal year (Apr. to March) for each type of cover. For fiscal 1962 (billions of Yen): General export insurance, 450; Export proceeds insurance, 160; export bill insurance, 90.	(a) £1,5 billion for commercial guarantees: £800 million for "national interest" transactions. (b) No specific limits.	(a) No specific limit except as related to (b). As of Aug. 1, 1964, FCIA assumed 100% of commercial risk, subject to aggregate loss limit of $2.5 million annually. (b) $10.5 billion, at any one time, for credits, guarantees and insurance. Under FCIA program, assumes 100% of political risk and reinsures excess of $150,000 per buyer plus excess over (a's) aggregate annual loss limit of $2.5 million. (Effective Aug. 1, 1964.)
G. ELIGIBILITY CRITERIA *(See Explanatory Comment re. eligible products.)*	Who Eligible: Resident persons or corporations doing business in Canada. What eligible: All goods or services exported from Canada, wholly or substantially Canadian origin.	Who eligible: Exporters from France or French overseas Depts. and Territories. What eligible: Consumer and capital goods and related engineering and other services. Capital goods may include foreign content.	Who eligible: (a) Any domiciled exporter (b) German exporters and German subsids. of foreign firms. What eligible: (a) Consumer and capital goods: services e.g. construction work abroad, consignments, merchanting trade, processing of goods, etc. Capital goods must have German content of 90%, (70% if foreign content is EEC. Austrian, Swedish or Swiss). Consumer goods may be of foreign origin if sold by German exporter (b) All contracts for delivery of goods or performances.	Who eligible: (a) Any exporter domiciled in Italy incl. affilates of foreign firms having predominant Italian interest. In latter case insurance cover is limited to Italian participation. (b) Any exporter domiciled in Italy. What eligible: (a) All goods sold on terms of 6 mos. to 5 years, with emphasis on capital goods: works carried out abroad – consignments, engineering, etc. studies and projects, supply contracts in which "fixed price" clause is stipulated. (b) All types of goods sold on short or medium terms.	Who eligible: Resident exporters, producers, processors, suppliers of technical services, etc. from Japan. What eligible: Goods or services produced, processed or assembled in Japan.	Who eligible. (a) U.K. exporters and their overseas subsidiaries: confirming houses; banks financing larger capital type projects. (b) Any exporter from the United Kingdom. What eligible: (a) All types of products; engineering and other services including merchanting transactions overseas, trade fair participations, processing operations abroad royalties, professional fees, insurance premiums, stocks held abroad. (b) Consumer and capital goods.	Who eligible: (a) Any individual, firm or corporation resident of and doing business in the U.S.A., its territories or Puerto Rico. (b) Banks & certain other institutions financing medium-term transactions without recourse to exporter. What eligible: (a) Short-term: Any product having U.S. content of at least 50% exclusive of price mark-up. Medium-term: - Any product produced or manufactured in the U.S. 181 days to 5 years. and normally sold in international trade on terms of Consigned stocks and sales therefrom eligible under each policy. (b) Products and services of U.S. origin and manufacture normally sold in international trade on medium-terms (181 days to 5 years). Services include architectural, design, engineering, economic, etc. surveys; leasing, consignments, trade fair exhibits, etc. (Not performance of foreign construction contracts.)

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

FINANCIAL RESOURCES
EXPOSURE LIMITS
ELIGIBILITY CRITERIA

SUBJECT	(8) AUSTRALIA	(9) AUSTRIA	(10) BELGIUM	(11) DENMARK	(12) FINLAND
E. CAPITAL FUND	A£ 1 million.	No fixed sum. Government assumes all liability.	(a) B.F. 650 million, plus accumulated reserves of BF. 1.433 billion (Jan. 1, 1963). (b) BF. 100 million.	Kr. 200 million, with Government assuming liability for any excess loss.	No fixed sum. National budget may allot funds to cover any deficit. Government assumes all liabilities.
F. MAXIMUM LIABILITY (EXPOSURE) LIMIT	A£ 50 million for commercial guarantees (None for single debtor).	AS. 2 billion (None for single debtor, transaction or market.)	(a) 15 times capital and general reserves, i.e. B.F. 17.25 billion. (None per single transaction, country, etc.) (b) No specific limits.	Kr. 2.5 billion (None per debtor or country.).	Markka one thousand million. None per debtor or country.
G. ELIGIBILITY CRITERIA *(See Explanatory Comment re. eligible products.)*	Who eligible: Any individual or firm doing business in Australia offering reasonable spread of market risks. Confirming house making payment to Australian suppliers without recourse. What eligible: Consumer and capital goods; engineering and other services.	Who eligible: Any Austrian firm. What eligible: All goods and related services, preferably exports having high labor content.	Who eligible: (a) Any enterprise with main office in Belgium. (b) Any Belgian firm, or foreign firm not domiciled in country of another export credit insurer. What eligible: (a) Goods or services resulting in Belgian receivables abroad, incl. transit operations by Belgian firms (b) All goods (except diamonds and furs) and services.	Who eligible: Any enterprise registered in Denmark. What eligible: Goods and services of Danish origin, also foreign goods if not competitive with Danish products; consignments; market development costs; bank loans to finance eligible transactions.	Who eligible: Exporter from Finland or bank in Finland. What eligible: Industrial products; transfer abroad of mfg. or patent rights, royalties; planning or other type work abroad.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

FINANCIAL RESOURCES
EXPOSURE LIMITS
ELIGIBILITY CRITERIA

SUBJECT	(13) HUNGARY	(14) INDIA	(15) IRELAND	(16) ISRAEL	(17) NETHERLANDS
E. CAPITAL FUND	No fixed sum.	Auth. capital Rs. 50 million subscribed Rs. 25 million. Paid capital Rs. 5 million (to be increased to Rs. 20 million). Underwriting Reserve Rs. 500,000. Reserve for unexpired risks Rs. 403,177.	No fixed sum. Government guarantees political risk liability.	Auth. and issued capital I£ 1 million; paid I£ 500,000 Insurance fund I£ 1.74 million (Mar. 31/63). Government guarantees to I£ 50 million (to be increased to I£ 100 million).	Auth. capital Fl. 10 million. Paid capital Fl. 2 million, plus various reserves – over Fl. 10 million.
F. MAXIMUM LIABILITY (EXPOSURE) LIMIT	Per single debtor or transaction – U.S. $400,000. No global or per country limit.	Ten times subscribed capital plus reserves.	For political risks – Aggregate liability to £ 5 million at one time guaranteed by Government. (None per debtor, transaction country, etc.) For commercial risks – Each insurer sets own limits, incl. aggregate liability limit.	No fixed sum.	No specific limits (exceptionally country limits may be applied). Company sets own policy limits.
G. ELIGIBILITY CRITERIA *(See Explanatory Comment re. eligible products.)*	Who eligible: Exporter from Hungary. What eligible: Any type product.	Who eligible: Exporter from India. What eligible: Any commodity wholly or partly produced or processed in India.	Who eligible: Individuals or firms doing business in Ireland. What eligible: Any type product: services e.g. construction work, etc.	Who eligible: Exporters domiciled in Israel. What eligible: Any type product wholly or predominantly of Israel origin – construction works, water supply and irrigation projects.	Who eligible: Any exporter from Netherlands. What eligible: Short-term: raw materials, consumer and capital goods; engineering and services, freights and royalties. Medium-term: Capital goods and services, exceptionally engineering.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

FINANCIAL RESOURCES
EXPOSURE LIMITS
ELIGIBILITY CRITERIA

SUBJECT	(18) NORWAY	(19) PAKISTAN	(20) SOUTH AFRICA	(21) SPAIN	(22) SWEDEN	(23) SWITZERLAND
E. CAPITAL FUND	No fixed sum. Accumulated surplus was N. Kr. 14 million at end of 1963.	Working capital Rs. 500,000 (May 31, 1962).	Auth. Capital: R. 500,000 Paid capital: R. 310,000	(a) Subs. capital Ptas. 90 million: paid Ptas. 45 million. (b) Ministry of Finance provides necessary funds.	(a) S. Kr. 39.5 million plus Goverment guarantee for any deficiency. (b) S. Kr. 2 million plus reserves S. Kr. 10.4 million.	(a) No fixed sum. Reserves approx. SF. 30 million. (b) Paid capital, SF. 6 million, reserves, SF. 49.1 million (Dec. 1962).
F. MAXIMUM LIABILITY (EXPOSURE) LIMIT	N.Kr. 600 million (global). Proposed to increase to N.Kr. 1,000 million (1964).	Ten times working capital plus surplus funds.	No fixed limits.	(a) and (b) No fixed limits.	(a) S.Kr. 3 billion (global). (b) No fixed amount.	(a) and (b) No fixed limits.
G. ELIGIBILITY CRITERIA *(See Explanatory Comment re. eligible products.)*	Who eligible: Any exporter or financing bank. What eligible: Consumer and capital goods; engineering service contracts.	Who eligible: Any exporter from Pakistan. What eligible: All types of goods produced, manf'd. or processed in Pakistan; any service or other transaction conducive to export earnings.	Who eligible: Any exporter incorporated under South African law (includes South-West Africa enterprises). What eligible: Raw materials and all consumer, durable and capital goods.	Who eligible: (a) and (b) Exporting firms and financing banks. What eligible: (a) and (b) Consumer and capital goods totally or partly produced in Spain; technical services; construction work abroad.	Who eligible: (a) and (b) Any enterprise operating in Sweden. What eligible (a) Goods produced in Sweden, contract work and engineering services abroad and their proceeds; royalties, etc. Capital goods may be 70% of Swedish content if remaining content is EEC, Austrian or Swiss. (b) Any type goods and service.	Who eligible: (a) and (b) Any firm domiciled in Switzerland and in Commercial Register. What eligible: (a) All goods manufactured or produced in Switzerland; consignments; services connected with engineering work abroad. (b) Short-term – All products: Medium-term – Capital goods.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

RISKS COVERED

SUBJECT	(1) CANADA	(2) FRANCE	(3) WEST GERMANY	(4) ITALY	(5) JAPAN	(6) UNITED KINGDOM	(7) UNITED STATES
H. PRINCIPAL RISKS INSURED *Note: Credit Insurers generally;* *(a) reserve right to approve transactions offered;* *(b) require exporter's compliance with sales contract;* *(c) exclude losses due solely to buyer's non-acceptance of goods, or to trade disputes;* *(d) require adherence to normal credit standards.*	Insolvency, protracted default, contract repudiation by buyer; exchange transfer delay, cancellation of export license or imposition of new licensing restrictions, war, revolution, etc. any other cause of loss beyond control of both exporter and buyer and not otherwise insurable. No separation of cover for commercial or non-commercial risks.	COFACE own a/c: Insolvency and protracted default-under Short term policy only. For GOV'T. a/c: Political risks, incl. exchange transfer delay; war, revolution, expropriation, etc. and (under certain conditions) exchange conversion loss; market penetration costs. Medium term policy now may cover insolvency of or protracted default by private buyer, also political risks. May include rise in French price index above world market level, also catastrophe and certain exchange risks. Pre-acceptance cover available: also cancellation of contract by public buyer. Separate political risk only cover for medium-term and extended medium-term transactions. At short-term, commercial risk cover must be combined with political. Since April 23, 1964 COFACE authorized to insure financial credits to foreign entities, tied to purchases in France.	(a) Private debtors: Insolvency (not protracted default), transfer delay and other non-commercial risks. Public debtors: Same, except protracted default is also covered. Services, construction and consignment contracts, etc. covered for private and public buyers. Exceptionally, political risks alone can be insured, but cover may be restricted to transfer and conversion risks if wanted. Pre-shipment cover available (public and private buyers) for made-to-order capital goods, also services, construction and consignment contracts. (b) Insolvency only.	(a) Non-commercial risks, incl. default by public buyers; war, revolution, exchange transfer delay; suspension or cancellation of order due to political cause; moratoria; natural catastrophe; production cost increase under fixed price contract. Does not cover insolvency or default by private buyer. (b) Insolvency. Protracted default in Western European countries.	Insolvency, protracted default, non-delivery due to bankruptcy of debtor. Political: war, revolution; exchange transfer delay; any other cause of loss beyond control of principals. Political risks only may be insured.	(a) Insolvency; protracted default for goods delivered; default on contract after shipment. Exchange transfer delay; war, revolution, etc.; new import licensing or cancellation of licenses; new export license restrictions; Trading costs in market penetration not subsequently recovered from established trade; Any cause of loss occurring outside the U.K. beyond control of principals and not insurable with commercial insurers. Pre-shipment cover available. No separate cover for political or commercial risks only. (b) Insolvency; protracted default.	(a) Insolvency, protracted default. Exchange transfer delay; war, revolution, expropriation, etc.; cancellation of valid license to export or import product. Transport or insurance charges caused by interruption or diversion of voyage not recoverable from buyer. Separate cover available for political risks only (not commercial risks only). Pre-shipment cover available. (b) Same as (a), except guarantees only medium-term transactions, covering political risks only for early maturities, then comprehensive (both commercial and political risks) for later maturities. Pre-shipment cover available. Political risk only cover for consignments or goods on exhibit, leasing, technical services, etc.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

RISKS INSURED

SUBJECT	(8) AUSTRALIA	(9) AUSTRIA	(10) BELGIUM	(11) DENMARK	(12) FINLAND
H. PRINCIPAL RISKS INSURED *Note: Credit Insurers generally:* *(a) reserve right to approve transactions offered;* *(b) require exporter's compliance with sales contract;* *(c) exclude losses due solely to buyer's non-acceptance of goods, or to trade disputes;* *(d) require adherence to normal credit standards.*	Insolvency, protracted default, contract default by buyer post-shipment. Exchange transfer delay; cancellation of valid import license or new restrictions which prevent import; war revolution, etc. any other cause of loss beyond control of principals and not otherwise insurable. Pre-shipment cover available. No separate cover for commercial or political risks only.	Insolvency, protracted default. Exchange transfer delay; war, revolution, etc., expropriation, contract default by public buyer, moratoria; any other risk which may delay or prevent shipment or delivery, not due to fault of exporter and not otherwise insurable. Pre-shipment cover for capital goods and services. No separation of political and commercial risks.	(a) Insolvency; protracted default by private buyer who has accepted goods without reserve; Default by public buyer. Any political event which delays or prevents payment, e.g. exchange transfer delay, war, revolution. Arbitrary contract cancellation by public buyer, pre-shipment. No separate cover for commercial risks only. Comprehensive (commercial and political risk) cover only under global or approved overall agreement with exporter. (b) Insolvency, protracted default (for own a/c). Political risk cover may be added for account of (a). Not authorized to issue policies covering political risks only. Does cover commercial risks only.	Insolvency, protracted default. Exchange transfer delay; war, civil war, etc., general moratoria, expropriation; cancellation of import license or new restrictions preventing import. Pre-shipment risk covered. Policies may cover commercial or political risks, or both.	Buyer's insolvency, or payment default in violation of contract; non-payment due to political events or governmental acts, etc. Abnormal increase in production costs. Loss due to force majeure being construed contrary to general business practice. General moratoria; exchange transfer delay, expropriation. Loss due to storage of goods abroad, or marketing measures abroad. Cover available for political risks only.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

RISKS INSURED

SUBJECT	(13) HUNGARY	(14) INDIA	(15) IRELAND	(16) ISRAEL	(17) NETHERLANDS
H. PRINCIPAL RISKS INSURED *Note: Credit Insurers generally:* *(a) reserve right to approve transactions offered;* *(b) require exporter's compliance with sales contract;* *(c) exclude losses due solely to buyer's non-acceptance of goods, or to trade disputes;* *(d) require adherence to normal credit standards.*	Insolvency (not protracted default). Exchange transfer delay (no other political or catastrophe risks). No separate cover for commercial or political risks. No pre-shipment cover.	Insolvency, protracted default, non-acceptance of goods in violation of contract. Exchange transfer delay; war, revolution, etc., imposition of new import-export restrictions. Added transport or insurance charges not recoverable. Non-compliance with contract by public buyer. Change in standards. Natural catastrophe; confiscation; Market penetration expense. Cover available for pre-shipment risks and for political risks only.	Political – Exchange transfer delay; war, revolution, etc.; cancellation of license to export or import; other government action which prevents delivery (not contract repudiation by private buyer post-shipment or by public buyer pre-shipment). Commercial – Insolvency, protracted default. Pre-shipment (contracts) cover, and separate policies for commercial or political risks, available.	Insolvency, protracted default. Exchange transfer delay; war, revolution, etc.; change in import licensing restrictions; expropriation or confiscation of stocks held abroad for display, etc. Cover vs. political risks only when exporter or buyer interested in each other's business. Pre-shipment cover available for 6 months.	Insolvency, protracted default, failure or refusal to accept goods in violation of contract. Exchange transfer delay; war, revolution, etc.; expropriation. Exchange risk exceptionally. Catastrophe. Marine risks when not otherwise insurable due to war, etc. Pre-shipment cover and cover against commercial or political risks only available.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

RISKS INSURED

SUBJECT	(18) NORWAY	(19) PAKISTAN	(20) SOUTH AFRICA	(21) SPAIN	(22) SWEDEN	(23) SWITZERLAND
H. PRINCIPAL RISKS INSURED *Note: Credit Insurers generally:* *(a) reserve right to approve transactions offered;* *(b) require exporter's compliance with sales contract;* *(c) exclude losses due solely to buyer's non-acceptance of goods, or to trade disputes;* *(d) require adherence to normal credit standards.*	Insolvency, protracted default. Exchange transfer delay; war, revolution, etc; cancellation of import license; other political acts. Pre-shipment cover available. No separation of political and/or commercial risks.	Insolvency, protracted default. Exchange transfer delay; war, revolution, etc; cancellation of import license or new import restrictions; added transport or insurance charges not recoverable; any other cause of loss due to political event outside Pakistan: non-compliance with contract by public buyer. No separation of political and/or commercial risks.	Insolvency, protracted default. Exchange transfer delay; war, revolution, etc; new import restrictions; discriminatory action e.g. handling boycotts vs. South African goods. Pre-shipment cover available. No separation of political and/or commercial risks.	(a) Insolvency, protracted default, Pre-shipment cover available, also cover vs. commercial risks only. (b) Non-commercial risks only, incl. transfer delay; war, revolution, moratoria new export restrictions; natural catastrophes, pre-shipment mfg. risk (vs. contract cancellation).	(a) Insolvency. Protracted default by public debtor only. Exchange transfer delay; war, revolution, etc; expropriation; new licensing controls; other government acts, etc. beyond control of principals. Exchange conversion loss and added transport, etc. charges under stated conditions. Pre-shipment cover, also "political risks only" cover available. (b) Insolvency only.	(a) Insolvency or default by public buyer or if debt guaranteed by a government owned bank or institution. Exchange transfer delay; war, revolution, etc. For stocks held abroad, confiscation, etc. or government acts preventing re-export. Pre-shipment. Political risks, plus transport difficulties abroad which prevent delivery. (b) Insolvency (not protracted default) of private buyers.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

TYPES OF POLICY

SUBJECT	(1) CANADA	(2) FRANCE	(3) WEST GERMANY	(4) ITALY	(5) JAPAN	(6) UNITED KINGDOM	(7) UNITED STATES
I. TYPES OF POLICY	Global (whole turnover), short term credits: Contracts (pre-shipment) A.C. covers from receipt of order to receipt of payment. Shipments Policy A.S., covers from shipment date. Specific: medium-term (i) AC – Spec. G., covers contract with public buyer. (ii) AC – Spec., covers contract with private buyer. (iii) Services – covers engineering, etc. services. No unconditional guarantees to banks.	Whole turnover – Short term, comprehensive. Specific – medium-term and extended medium-term. Non-commercial risks only. Guarantees to banks covering exchange risks related to buyer's advance payments. Market penetration guarantees.	(a) Specific – single or recurring transaction with same buyer. Global (i) "Mantel Garantien" all sales to approved buyers in approved countries. (ii) "Pauschal Garantien" same as (i) but with preset discretionary limits within which exporter himself approves buyers. Special-Transfer and conversion risks alone – Single or recurring sale(s). No unconditional guarantees to banks. (b) Specific – single transaction. Revolving – fixed line of credit to cover outstanding debt of approved buyer for specific period. Issue unconditional guarantees to financing institutions.	(a) Specific, to cover: (i) Exports of goods and services. (ii) Goods deposited abroad pending sale. (iii) Contract work abroad. (iv) Study and preparation of projects. (b) Three types: (i) Global – domestic and export credits; (ii) Global – export credits only. (iii) Global – EEC and EFTA countries. *Note: Neither (a) nor (b) issues unconditional guarantees to banks negotiating (purchasing) documentary bills.*	Four principal types: (a) Specific – General Export – covers political, catastrophe and other non-commercial risks from 5th day after insurance contract date. (b) Global – General Export – covers same risks as (a) but from insurance contract date. (c) Specific – Export Proceeds – covers commercial and non-commercial risks from shipment date, on medium-term credits for capital goods and services. (d) Specific – Export Bill – covers direct unconditional guarantee to bank negotiating related documentary bills. Other policies cover consignments, overseas advertising risk, investments (principal risks and profit risks).	(a) More than 20, principal being: Whole turnover: Consumer goods and consumer durables on appropriate terms; also engineering equipment, etc. Sold on repetitive basis on terms to normal maximum of 5 years. Specific: Heavy capital goods and projects. Specific: Direct unconditional guarantees to financing institutions when contract value £ 100,000 or more and terms not less than 3 years. Export Finance Guarantees: For high value capital goods, incl. ships and major construction projects to cover full repayment in installments of long-term loans to buyers. Small Exporter Policy: Covers 90% of loss, at flat rate, on short-term sales to buyers selected by exporter. After two years, or when declared business exceeds £20,000, this simplified cover ceases. All policies cover both commercial and political risks. (b) Three main types: (i) Whole turnover; (ii) Specific a/c., turnover basis; (iii) Specific a/c., fixed or adjustable basis.	(a) Four types: Whole turnover – short-term: (i) Comprehensive (ii) Political Risk Specific – medium-term: (iii) Comprehensive (iv) Political Risks. Either of above policies may be extended to cover – pre-shipment period and/or consignments. (b) Specific guarantees to: Commercial banks financing medium-term transactions (non-recourse); and to U.S. firms for technical services, consignments., trade fair exhibits, etc. (a) and (b) Medium term policy may cover single sale or repetitive sales to same buyer within 1 year period.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

TYPES OF POLICY

SUBJECT	(8) AUSTRALIA	(9) AUSTRIA	(10) BELGIUM	(11) DENMARK	(12) FINLAND
I. TYPES OF POLICY	Epic 2: Comprehensive – shipments – consumer goods and durables, short-term. Epic 10: Comprehensive (contracts) – same as Epic 2 but covers from contract date. Epic 4 and 5: Specific, capital goods and projects. Epic 16: Engineering and other services. External Trade Policy: Includes foreign commodities (non-competitive with Australian) shipped by Australian exporters from third countries. Confirming House Policy: Conditional on confirming house paying Australian supplier "without recourse."	One type for all risks. May cover: (a) post-shipment, (b) pre-shipment, (c) pre and post-shipment. Advance commitment binder convertible to policy if sale effected. Supplementary guarantee (no additional charge) to exporter's bank, in selected cases, provides for immediate claim settlement.	(a) Three major types: (i) Specific – single transaction private buyer, vs. political risks, or gov't. buyer vs. payment and transfer risks; or, when payment terms over 6 mos., vs. both political and commercial risks provided exporter operates under global (whole turnover) policy. (ii) Automatic cover vs. political risks, private or public buyer in single country. (iii) Whole turnover, covering credits to 6 mos. vs. commercial and political risks, within preset customer limits. Under this policy, exporter may also cover medium-term credits vs. same risks on case-by-case approval basis (see (i) above). No unconditional guarantees to financial institutions. (b) Whole turnover, or approved spread of risks.	Specific – Single transaction. Turnover – Sales to one or more buyers within specified time. Either policy may cover commercial or political risks, or both. Guarantees for bank loans may cover: (i) production credits for firm orders; (ii) production credits for probable orders; (iii) financing of sales stocks abroad. (iv) Sales promotion costs. If loan is defaulted and insurer pays bank, it retains recourse on exporter.	Whole turnover and specific

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

TYPES OF POLICY

SUBJECT	(13) HUNGARY	(14) INDIA	(15) IRELAND	(16) ISRAEL	(17) NETHERLANDS
I. TYPES OF POLICY	Specific only. No unconditional guarantees to financing institutions.	Eleven types: 1. Shipments – Comprehensive 2. Shipments – political risks 3. Contracts – comprehensive 4. Contracts – political risks 5. Specific shipments/contracts 6. Manufacturers – cover mfrs. sales to exporters. 7. Exporters – covers exporters advances to mfr. making goods for export. 8. Market development 9. Packing credit – covers banks, etc. advances to exporters for procuring goods for export. 10. Post-shipment financing by bank to exporter. 11. Export Finance Guarantee – enables exporter to obtain advances from banks up to 100% or in some cases, to 125% of value of export bill.	Political – shipments and contracts, whole turnover. Commercial – (i) Whole turnover; (ii) Specific a/cs. (iii) Anticipatory credit (payment by buyer before delivery. (iv) Work in progress (services or construction work before payment). No unconditional guarantees to financing institutions.	Whole Turnover – shipments – short-term. If required, would issue similar contracts (pre-shipment) policy for short-term credits and specific policies for capital goods and construction work. No unconditional guarantees to financing institutions.	Short-term – Whole turnover – all credits to a single country, to selected countries, or to all countries. Short-term – specific – selected buyers. Medium-term (capital goods, etc.) – Specific – public or private buyers (a) from shipment date, or (b) from contract date: also for transit or triangular trade (to 6 mos.), services, etc. Provisional policy covers during contract negotiation. Political Risks Only policy is available. Issue direct guarantees to financing institutions.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

TYPES OF POLICY

SUBJECT	(18) NORWAY	(19) PAKISTAN	(20) SOUTH AFRICA	(21) SPAIN	(22) SWEDEN	(23) SWITZERLAND
I. TYPES OF POLICY	Whole turnover and specific – pre and post-shipment. Exceptionally, issue direct guarantees to Norwegian banks.	Short-term – Comprehensive – Whole turnover, all or selected markets – may be endorsed to also cover: (a) extended terms (to 2 years) for engineering products; (b) overseas consigned stocks; (c) Sales from overseas stocks; (d) Trade fair exhibits; (e) Re-exports of foreign non-competitive goods; (f) Sales in approved foreign currencies; (g) Sales on D/P terms.	(i) Comprehensive, all markets, whole turnover: (a) Named buyers. (b) With discretionary limit. (ii) Comprehensive, selected markets, whole turnover: (a) Named buyers. (b) With discretionary limit. (iii) Comprehensive, specific accounts. (iv) Contracts – pre and post shipment. (v) Consignment stocks abroad. (vi) Financial guarantees related to large projects – involving terms beyond 5 years, fully reinsured by Government. Otherwise, no unconditional guarantees to financing institutions.	(a) Whole turnover, short-term. Specific, medium-term. (b) Whole turnover and specific, post-shipment. Cancellation of contract, pre-shipment. (a) and (b): No unconditional guarantees to financing institutions.	(a) Whole turnover and specific – pre and post-shipment, either commercial or political risks or comprehensive – stock keeping. No unconditional guarantees to financing institutions, but may cover direct credits by Swedish banks or other financial institutions to foreign buyers of Swedish products. (b) Whole turnover. Issues unconditional guarantees to banks.	(a) Whole turnover – all exporter's business with: (a) all countries (b) specific country or group of countries (c) all business of an export industry association with one or more countries – specific. (b) Whole turnover, short-term credits to 1 year. Specific and revolving policies for medium term credits (new capital goods) to 4 years. Sales to public buyers not insured. (a) and (b): Do not issue unconditional guarantees to banks.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

SCOPE OF COVER

SUBJECT	(1) CANADA	(2) FRANCE	(3) WEST GERMANY	(4) ITALY	(5) JAPAN	(6) UNITED KINGDOM	(7) UNITED STATES
J. PERCENTAGE OF COVER *Note: Insurers normally pay percentage stated on actual sustained loss.*	To 90% commercial and political risks. For buyer's repudiation of contract, exporter bears, as first loss, 15% of contract or gross invoice value, ECIC bears 90% of remaining loss, with maximum liability 40% of contract or gross invoice value.	Commercial risks, 70 to 80%: Political & catastrophe, 80 to 90%: Exchange risks, 100%: Market penetration, 50 to 60% of potential loss.	(a) Commercial Risks, including protracted default by public buyer: to 80% of order value, or, in case of export merchants, of purchase price. Political – to 85% conversion, transfer, legal moratoria, etc. To 90% expropriation and war losses. Also available is 85% cover on production risk and on "special transactions (construction contracts, warehousing, consignment, fair exhibits) (b) Normally 70%.	(a) to 85% goods and services exports and sales from stocks deposited abroad. 65% goods deposited abroad. 30% of contract (works abroad). 65% of contract (studies and projects of contracts with public bodies) 100% of production cost increase if over 5% and not more than 10% in fixed price contracts – 85% to 100% for financial facilities to a foreign state or to bodies guaranteed by foreign state. (b) 75%	Respectively, as to 4 principal types of Policy (See Subject I). (a) to 90%. (b) Consumer goods: 90% of loss, with maximum liability 30% of contract price. Capital goods, 90% of loss with max. liab. 80% of contract price. (c) To 90%. (d) To 80% of bill amount.	(a) Commercial Risks: to 85% insolvency, protracted default: to 95% default by Government buyer. Political: to 95% exchange transfer delay, new import licensing, war, added handling charges, etc. (90% pre-shipment). 90% of any loss under Small Exporter Policy. To 50% of unrecovered loss in market penetration. For buyer's non-acceptance in violation of contract, exporter bears as first loss 20% of contract or gross invoice value. ECGD bears 85% of remaining loss, with maximum liability 34% of contract or gross inv. value. (b) 75% to 85%.	(a) Short-Term: to 85% commercial, to 90% or 95% political risks. Medium-Term: to 85% of financed portion (i.e. balance after deducting buyer's cash payment from contract price). (b) To 85% of political risks on financed portion represented by promissory notes purchased without recourse to exporter (all maturities) To 85% of commercial risk on later maturities of promissory notes, with commercial bank itself assuming 85% of commercial risk on early maturities. (To 18 mos., or first half of credit period depending on dollar amount, etc.)
K. LENGTH OF CREDIT PERIOD COVERED	Consumer goods, d/p to 120 days. Consumer durables, d.o.p. to 180 days. Capital goods, to 5 years Pre-shipment cover – to 12 mos. under AC Contracts Policy. May extend beyond 12 mos. under specific policies, AC Spec. or AC Spec. G. Services (engineering, construction, technical, etc.) pay as services performed. Provide about 90 days cover on revolving basis.	Consumer goods, 4 to 6 mos. (preshipment to 6 mos): Consumer durables, 6 mos. to 2 years (pre-shipment 6 to 9 months): Capital goods – to 5 years, exceptionally longer in extended medium-term (pre-shipment to 2 years). Services related to capital goods transactions, credit period depends on type of transaction.	(a) Post-shipment – to 6 mos. consumer goods: to 5 year maximum on capital goods depending on type product, amount, etc. Pre-shipment cover, for capital goods only, case by case. Normally not for consumer goods. (b) to 5 years, incl. pre-shipment cover, according to product, etc.	(a) 6 mos. to 5 yrs. exports of goods and services: 2 yrs. sales from stocks abroad: 4 years from contract date, projects and studies: 4 years from start of work, construction contracts (may be extended on specific authorization by Treasury.) Preshipment cover, case by case. (b) Consumer goods – to 6 mos (pre-shipment 4 mos.) Consumer durables – to 12 mos. (including pre-shipment). Capital goods – to 12 mos. (including pre-shipment). Also provide cover for long-term delivery contracts, subject to maxi-12 mos. credit period per sale.	No fixed limits, but medium-term transactions may be insured for credit periods to 6 years; exceptionally to 10 years.	(a) Commodities and raw materials – 3 months. Consumer Goods – to 6 mos. post-shipment. Capital Goods, engineering, etc. – to 5 years post-shipment (certain jet aircraft to 7 years. Services – appropriate to case. Financial Guarantees – no specific limit. Longer terms may be agreed to match foreign competition. (b) Consumer Goods – to 6 mos: Consumer durables – to 12 mos: Capital Goods to 5 years. Pre-shipment cover period case by case.	(a) Short-term, post-shipment, to 180 days after arrival – pre-shipment, 180 days. Medium-term, post-shipment. 181 days to 5 years (certain jet aircraft to 7 years). Pre-shipment 180 days (renewable case by case). (b) Medium-term only: same as (a)

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WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

SCOPE OF COVER

SUBJECT	(8) AUSTRALIA	(9) AUSTRIA	(10) BELGIUM	(11) DENMARK	(12) FINLAND
J. PERCENTAGE OF COVER *Note: Insurers normally pay percentage stated on actual sustained loss.*	To 85% – Insolvency, protracted default. To 95% – Exchange transfer and other non-commercial risks. Non-acceptance of goods: exporter bears, as first loss, 20% of contract or invoice value; EPIC bears 85% of balance, within maximum liability of 34% of contract or invoice value.	80 - 85% all types of risk.	(a) To 80% payment and transfer risks – public debtors. To 85%, political risks – private debtors. To 75% commercial risks – private debtors. To 90% political risks under global policy. (b) 75% - 80% - 85% (depending on country) commercial risks. Same as (a), political risks – as agent for (a).	Commercial risks, 80; or 85% if a/c. guaranteed by acceptable bank. Political, 85; or 90% if public buyer. Consignments – to 50% of loss, or 75% of costs involved in exporting, storing and possible re-importing goods. Sales Promotion – to 50% of loss. Bank loan guarantees – 75 to 85% value of credit	Commercial risks to 80%. Political, etc. risks to 90%.
K. LENGTH OF CREDIT PERIOD COVERED	Consumer goods – to 6 mos. Consumer durables – to 3 years. Capital goods – to 5 years from delivery.	Consumer goods – 3 months. Consumer durables – 3 months. (No pre-shipment cover) Capital goods and services – to 5 years – pre-shipment cover to 3 years.	(a) Consumer goods, to 6 mos. Consumer durables, 6 to 24 months. Capital goods, to 5 years post-delivery. Services, case by case. (b) Variable (short or medium-term) according to product, etc.	Consumer goods – to 180 days Capital goods – to 5 years (suitable cash down payment by buyer). Pre-shipment cover, by case.	Consumer goods, to 6 mos. Capital goods, services, to 5 years. Pre-shipment cover, by case.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

SCOPE OF COVER

SUBJECT	(13) HUNGARY	(14) INDIA	(15) IRELAND	(16) ISRAEL	(17) NETHERLANDS
J. PERCENTAGE OF COVER *Note: Insurers normally pay percentage stated on actual sustained loss.*	90% of invoice value – commercial and political.	80% commercial risks 85% political risks 50% market development 66-2/3% packing credits 50% exporter's credit insurance 80% manufacturer's credit insurance 75% export finance guarantee 66-2/3% post-shipment export credit guarantee.	70 to 85% commercial risks. 90% political risks	85% commercial risks. 95% political risks.	75% (exceptionally 90%) commercial risks, short-term. 90% comprehensive (political and commercial risks) short-term and medium-term. 85% for capital goods contracts with less-developed countries. To 95% exchange risk.
K. LENGTH OF CREDIT PERIOD COVERED	Consumer goods – 6 mos. Consumer durables – 1 year Capital goods – to 5 years Services not insured. No pre-shipment cover.	Consumer goods – to 6 mos. Consumer durables – to 1 year. Capital goods – to 5 years Pre-shipment cover – normally 4 mos.: longer for durable and capital goods.	Political risks – to 180 days incl. pre-shipment cover. Commercial – to 180 days, but may exceed this in specific cases. No present demand for medium-term cover.	Consumer goods – to 6 mos. Consumer durables – to 2 years Capital goods – to 5 years if required. Engineering etc. services – to 180 days Pre-shipment cover – 6 mos.	Consumer goods – to 6 mos. Consumer durables – 12 mos. (large orders, 18 to 24 mos.) Capital goods – 5 years Services – to 5 years (exceptionally longer) Pre-shipment cover for reasonable periods.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

SCOPE OF COVER

SUBJECT	(18) NORWAY	(19) PAKISTAN	(20) SOUTH AFRICA	(21) SPAIN	(22) SWEDEN	(23) SWITZERLAND
J. PERCENTAGE OF COVER *Note: Insurers normally pay percentage stated on actual sustained loss.*	75% (exceptionally 85%) commercial risks, private buyers. 85% (exceptionally 90%) political risks and government buyers.	75% commercial risks. 85% political and other risks.	(a) Commercial risks – to 85%. (b) Political risks – to 90% (incl. consignment stocks). Exceptionally may guarantee financial credits, related to long-term projects. to 100%.	(a) To 80%. (b) To 85%.	(a) 70% – 75%, commercial 80% – 85%, political. (b) To 85%.	(a) 60% to 85%. (b) 70% to 85%.
K. LENGTH OF CREDIT PERIOD COVERED	To 6 mos., raw materials, semi-finished and finished goods. To 5 years, capital goods. Pre-shipment cover, by case.	To 120 days consumer & consumer durable goods. To 2 years engineering products, etc.	Shipment – Payment Terms Consumer goods to 180 days Consumer durables to 180 days (exceptionally 18 mos.) Consignment stocks to 180 days. Capital goods to 5 years. Pre-shipment – length of cover: Generally to 6 mos. consumer goods and consumer durables. Capital goods, to 2 years . Services – contracts cover case by case – generally to 5 years.	(a) Consumer goods and consumer durables to 6 mos. (exceptionally 1 year). Capital goods, to 5 years. Pre-shipment cover to 2 years. (b) Generally, same as (a).	(a) Consumer goods – to 6 mos. Capital goods – to 5 years. Pre-shipment, by case. (b) No stipulated limits.	(a) To 5 years (exceptionally longer). (b) Consumer goods and consumer durables, to 12 mos. (no pre-shipment). Capital goods, to 5 years, incl. pre-shipment.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

PREMIUM RATES

SUBJECT	(1) CANADA	(2) FRANCE	(3) WEST GERMANY	(4) ITALY	(5) JAPAN	(6) UNITED KINGDOM	(7) UNITED STATES
L. PREMIUM RATES *Note: Credit insurers generally base premium rate (as a percentage of gross invoice value, or of contract price) on length of credit (duration of risk), status of destination country, and other risk variables.* *Rates stated herein are "flat", except when otherwise noted.*	According to risk. No published schedule. Average on all business since inception about 1%, with short-term average about 0.7%.	Short Term: commercial risks, c.a.d., 0.1 to 0.3%: 30-120 days, 0.3 to 1.5%: 12-24 mos., 1.5 to 2.5%. Political risks, c.a.d. 0.1 to 0.375%: 90-120 days, 0.12 to 0.45%. Medium and Extended Medium Term: Basic rate .02 to 1.5% Exchange Risks .04 to .06% depending on currency. Market Penetration: Advance premium – 2% of scheduled expenditure, plus .02 to .06% proportional premium, based on sales during period covered.	(a) For pre-shipment risk – 1% of amt. insured, or 0.75% if post-shipment cover included or if insurable post-shipment risks cannot arise. For post shipment risks: (i) private buyers – commercial risk – c.o.d. terms, 0.75%: deferred payment terms, basic rate 1.5% of amount insured, plus 0.1% of amt. actually outstanding, as "prorata temporis" prem. for each month beyond 6 mos. (ii) public buyers, basic rate graduated according to face value of policy: for first DM. 3 million, 1%; for next DM. 2 million, 0.75%: over DM. 5 million, 0.5% plus 0.05% per month applicable from 1st month on amt. outstanding for terms to 2 years; 0.04% per month on longer terms. (iii) Transfer and conversion risks only: 0.4% for single transaction: 0.3% of maximum amt. agreed under global guarantee, plus 0.2% for any excess turnover beyond agreed maximum liability amt. (b) European debtors: 0.6% of insured amt. for 1st 4 mos., then 0.1% monthly of outstanding debt. Overseas debtors: 0.8% of insured amt. for 6 mos.; 0.5% for d/p. transactions; 0.6% for pre-shipment cover	(a) Vary, by type of risk, credit period and market. Range from 0.10% to 1% for 1 year – from 0.15% to 1.15% for 3 years – from 0.22% to 1.25% for 5 years. Above rates, effective May 22, 1964, represent 50% reduction from previous rates. If guarantee expressed in foreign currency, premium is paid in lire at exchange rate in effect on date premium paid. (b) Approx. 0.3% to 1.5%, average.	Respectively, as to 4 principal types of policy (see Subject I): (a) 0.472% for 8 months, plus 0.062% for each added 4 mos. (b) Consumer goods, 0.665% for 12 mos. Capital goods, 0.665% for 18 months. (c) 0.294% for first 3 mos., plus 0.07% for each added 3 months. (d) Approximate average, 0.56%.	(a) Short Term – comprehensive rate average 0.325% Small Exporter Policy: Flat 0.67½%. Specific Medium Term cover for 2 year mfg. period and 5 year credit period: 1.5% to 4.75% depending on market. 5% of total premium rebated to exporter on expiration of 3 year whole turnover comprehensive policy. (b) Short Term: average 0.25% on turnover. Medium Term: Varies case by case.	(a) Not published: Short term comprehensive average rate approx. 0.6% of invoice value. Medium term comprehensive current rates for 5 year credit range between $1.68 and $8.82 per $100 of financed portion depending on market. Rates for political risk only. approx. 25% below comparable comprehensive rates. (b) Not published. Under bank guarantee program, current rates for 5 year credit range between $1.34 and $7.04 per $100 of financed portion depending on market.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

PREMIUM RATES

SUBJECT	(8) AUSTRALIA	(9) AUSTRIA	(10) BELGIUM	(11) DENMARK	(12) FINLAND
L. PREMIUM RATES *Note: Credit insurers generally base premium rate (as a percentage of gross invoice value, or of contract price) on length of credit (duration of risk), status of destination country, and other risk variables.* *Rates stated herein are "flat", except when otherwise noted.*	Short-term: average just under 0.5%. Medium-term: experience too limited – maximum 5%. *Note: July 1, 1963, 10% reduction in rates announced for Whole Turnover Comprehensive and Medium-term policies.*	1½% for first 6 mos., then 1/10th of 1% for each month exceeding 6 mos. Special guarantee for capital goods, ½% per annum.	(a) Short Term – from 0.2% to 2.7%: Medium term (6 mos. to 5 years) – from 0.3% to about 5%. (b) Not published. According to risk.	Short-term – to 6 mos., 0.3% of invoice for commercial risks; 0.2% for political risks. Medium-term – according to risk. Bank loan guarantees – ½% per annum of drawings plus ½% p.a. of guarantee limit.	Not published.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

PREMIUM RATES

SUBJECT	(13) HUNGARY	(14) INDIA	(15) IRELAND	(16) ISRAEL	(17) NETHERLANDS
L. PREMIUM RATES *Note: Credit insurers generally base premium rate (as a percentage of gross invoice value, or of contract price) on length of credit (duration of risk), status of destination country, and other risk variables.* *Rates stated herein are "flat", except when otherwise noted.*	From 0.6% for 3 mos. to 2.6% per year, depending on country.	For year 1963, average rate, 0.23%.	According to country group (A, B, C, D), political risk rates range from 0.175% to 1.425% for shipments cover; from 0.25% to 2.02% for contracts cover. Commercial risk rates average approx. 0.375% under whole turnover policy – 1.25% under specific risk policy. Vary according to country, buyer, payment terms, commodity and annual turnover.	Short-term, 0.17% to 2% according to country and credit period. Rate reduced by 75% for Grade A buyers in "A" countries, or by 50% on buyers in other than "A" countries if 1st. class bank guarantees credit.	Short-term, from 0.25% to 2%, flat. Medium-term, from 1% to 7% of contract amount, flat.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

PREMIUM RATES

SUBJECT	(18) NORWAY	(19) PAKISTAN	(20) SOUTH AFRICA	(21) SPAIN	(22) SWEDEN	(23) SWITZERLAND
L. PREMIUM RATES *Note: Credit insurers generally base premium rate (as a percentage of gross invoice value, or of contract price) on length of credit (duration of risk) status of destination country, and other risk variables.* *Rates stated herein are "flat", except when otherwise noted.*	Short-term – 0.2% to 1.8%. Medium-term – 1.5% to approx. 5%.	Average rate, short-term (4 mos. credit) 1%.	Short-term – average 0.4% Medium-term – 1% to 5%.	(a) For short-term and medium term (commercial risks only) – from 0.3% to 2.5%. Cancellation of contract (pre-shipment) – from 0.10% to 0.85%. (b) Vary, by country and credit period.	(a) Short-term – political 0.2% to 0.6%. Short-term – commercial – 0.3% to 0.6%. Medium-term – political – 0.2% to 3%. Medium-term – commercial – 0.8% to 3%. of insured amount. (b) 2% – 3% per annum.	(a) According to percent insured and credit period. For 60% cover, rate is 0.5% for 1st 6 mos. This rate increases by 0.05% for each added 5% of cover plus 0.05% for each added 6 mos. up to 5 years. For longer credits an added 0.1% per 6 mos. over 5 years is charged; e.g. 85% cover – 2 year credit – costs 0.9% 7 year credit, 1.6%. Credits to public buyers take added premium surcharge of 25% to cover credit risk. (b) No fixed schedule.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

REQUIREMENTS
WHOLE TURNOVER–CREDIT DATA
ASSIGNABILITY

SUBJECT	(1) CANADA	(2) FRANCE	(3) WEST GERMANY	(4) ITALY	(5) JAPAN	(6) UNITED KINGDOM	(7) UNITED STATES
M. WHOLE TURNOVER REQUIREMENT	Short Term. Whole turnover generally required. Shipments to U.S.A. not required. Exceptionally other reasonable exclusions permitted. Medium Term. Specific case by case	Short Term – whole turnover required.	(a) Flexible. Exporter may cover single transaction, all sales to one or more buyers, or all turnover to all or selected markets. (b) Require whole turnover (global), or for individual markets or groups of markets.	(a) No whole turnover requirement. (b) Require exporter's whole turnover.	Both whole turnover and specific policies available for consumer and capital goods.	(a) Short Term: Whole turnover required, tho' exporter may exclude certain markets, provided remainer gives fair spread of risks. Medium Term: Specific – case by case. (b) Whole turnover, or (provided risk acceptable) specific account or accounts.	(a) Short Term: Whole turnover required but exporter may choose to exclude Canada and/or L/C. business. Exceptionally other exclusions permitted. Medium-term – Specific, case by case. (b) No whole turnover requirement. Case by case.
N. CREDIT DATA REQUIREMENT *Is the exporter required to provide credit information on each buyer or does the insurer rely (entirely, or in part) on own investigation?*	Exporter required to provide buyer data, incl. balance sheets, etc. when necessary: bank or other guarantees when necessary. Insurer makes own investigation for follow-up only.	Rely mainly on own investigation. Do not require exporter to provide data, but do require bank guarantee when debtor's financial strength is insufficient.	(a) Require exporter's available data, which Hermes may supplement by own investigation. (b) Require exporter's credit data; also make own investigations.	(a) Exporter required to have supporting credit data to submit in event of loss claim. (b) Insurer relies on own investigation.	Credit reports generally required from exporter. Financial statements and/or guarantors required only in specific cases. Rely mainly on own investigations.	(a) Within discretionary limits, exporter required to have up to 2 reports from reliable sources. Above discretionary limits ECGD approval necessary. ECGD maintains own information on all buyers on whom commitments underwritten. (b) Normally insurer relies on own credit investigation, plus exporter's information when appropriate & available.	(a) Within discretionary limit, short-term, 2 current credit reports or 1 report plus 3 years favorable experience. Above discretionary limit short-term, two current credit reports or insurer will investigate for $10 fee. Medium-term – minimum 2 current credit reports May require also financial statements, etc. (b) Relies mainly on commercial bank to evaluate credit risk.
O. ASSIGNABILITY OF POLICY PROCEEDS	Assignable to financing institutions.	Assignable with COFACE approval.	(a) Assignable to financing bank. (b) Assignable, subject to approval.	(a) and (b) Proceeds assignable to financing institutions.	Policy proceeds assignable to banks, etc.	(a) Proceeds assignable to banks with notice to ECGD. (b) Proceeds assignable with insurer's written consent.	(a) Proceeds assignable to financing institutions. (b) Guarantees assignable with Eximbank approval.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

REQUIREMENTS
WHOLE TURNOVER–CREDIT DATA
ASSIGNABILITY

SUBJECT	(8) AUSTRALIA	(9) AUSTRIA	(10) BELGIUM	(11) DENMARK	(12) FINLAND
M. WHOLE TURNOVER REQUIREMENT	Negotiable, provided exporter offers reasonable spread of risks (markets).	Require whole-turnover (short-term).	(a) Not mandatory, except when commercial risks insured. Exporter offering all or approved portion of total business receives more advantageous cover. (b) Require all or approved spread of risks.	Whole turnover not required.	Whole turnover not always required.
N. CREDIT DATA REQUIREMENT *Is the exporter required to provide credit information on each buyer or does the insurer rely (entirely, or in part) on own investigation?*	Exporter's own information, plus insurer's investigation.	Require buyer's financial statements (not credit reports) from exporter – guarantors (if possible), also make own investigation.	(a) Rely mainly on own investigation. Exporter's credit information or bank guarantees not usually required. (b) Own investigation, plus exporter's credit data.	Exporter submits data, which insurer may supplement by own investigation. No special requirement as to financial statements or guarantors.	Exporter submits credit data to qualify risks; balance sheets, etc. on "ad hoc" basis. Insurer makes no independent investigation.
O. ASSIGNABILITY OF POLICY PROCEEDS	Unrestricted assignment permissible.	Assignable, with consent of Austrian Ministry of Finance.	(a) Proceeds of policy assignable to banks. (b) Same as (a)	Proceeds assignable with insurer's approval.	Proceeds assignable to financing institutions.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

REQUIREMENTS
WHOLE TURNOVER–CREDIT DATA
ASSIGNABILITY

SUBJECT	(13) HUNGARY	(14) INDIA	(15) IRELAND	(16) ISRAEL	(17) NETHERLANDS
M. WHOLE TURNOVER REQUIREMENT	No requirement. Insure only individual shipments.	Normally require whole turnover, but exclusion of individual markets, etc. negotiable. Specific policy granted for large contracts, case by case.	Political – Whole turnover generally required, incl. L/C. and sight draft shipments. Commercial – Whole turnover or specific a/cs.	Require whole turnover on short-term credits but buyers in "A" countries who supply 1st-class bank guarantees may be excluded at exporter's option. Medium-term and services transactions – specific policies.	No requirement for whole turnover, but pre-shipment cover for short-term credits is available only on whole turnover basis.
N. CREDIT DATA REQUIREMENT *Is the exporter required to provide credit information on each buyer or does the insurer rely (entirely, or in part) on own investigation?*	Depend on reports from banks (obtained by exporter). Do not rely on own investigation.	Exporter's information acceptable for smaller credit limits (1 report for Rs. 10,000 – 2 reports for Rs. 20,000). Rely on own investigation. Require buyer's bank guarantee for high limits, if information on buyer inadequate.	Political – No credit data required. Commercial – Exporter's data plus own investigation.	Exporter submits available data, which insurer may supplement by own investigation. Do not require financial statements. May require guarantees when appropriate.	Exporter required to submit available data which insurer supplements thru own investigation.
O. ASSIGNABILITY OF POLICY PROCEEDS	So far, no requests for assignments.	Policy or proceed assignable, with insurer's approval. Assignments irrevocable without consent of assignee bank.	Proceeds assignable with insurer's approval.	Proceeds assignable as to individual sales, or all sales to specific countries or all sales to all countries.	Policy or proceeds assignable with insurer's approval evidenced by policy endorsement.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

REQUIREMENTS
WHOLE TURNOVER–CREDIT DATA
ASSIGNABILITY

SUBJECT	(18) NORWAY	(19) PAKISTAN	(20) SOUTH AFRICA	(21) SPAIN	(22) SWEDEN	(23) SWITZERLAND
M. WHOLE TURNOVER REQUIREMENT	Normally, require whole turnover or acceptable spread of risk – short-term. Specific policies also issued. (Medium-term, etc.)	Normally require whole turnover, but will negotiate exclusions, not involving adverse selection, at appropriate rate differential.	Generally require whole turnover – short-term. Selected markets only if acceptable spread of risk. Specific cover medium-term transactions.	(a) Generally, whole turnover, short-term, but exceptionally insure individual a/cs. or markets at somewhat higher rates. (b) Require whole turnover, short-term.	(a) Whole turnover not obligatory but if insured lower rates apply. (b) Generally require whole turnover.	(a) Not mandatory, though exporter may elect to cover all sales to one or group of markets. (b) Generally require whole turnover, short-term. Specific and revolving policies medium-term.
N. CREDIT DATA REQUIREMENT *Is the exporter required to provide credit information on each buyer or does the insurer rely (entirely, or in part) on own investigation?*	Exporter's available information, plus insurer's own investigation.	Exporter's own data must qualify risks within discretionary limits. Exporter's data plus insurer's own investigation for special limits.	Exporter's reports, financial statements, etc. only exceptionally. Rely mainly on own investigation.	(a) Rely on insurer's investigation. (b) Commercial risks not insured, hence no credit data required.	(a) Exporter's data required. Guarantor required if buyer not sufficiently creditworthy. Insurer does not generally make own investigation. (b) Rely mainly on insurer's investigation.	(a) Require no credit data. (b) Require exporter's data. Exceptionally require financial statements, guarantors, etc. Insurer investigates risks over SF 10,000.
O. ASSIGNABILITY OF POLICY PROCEEDS	Proceeds assignable with insurer's approval.	Policy contains no assignability clause.	Proceeds assignable on exporter's request.	(a) Proceeds assignable to banks. (b) Proceeds assignable by policy endorsement with insurer's approval.	(a) and (b) Proceeds assignable to banks.	(a) and (b) Proceeds assignable with insurer's approval.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

WAITING PERIOD
PERCENTAGE ANNUAL EXPORTS
OPERATING RESULTS

SUBJECT	(1) CANADA	(2) FRANCE	(3) WEST GERMANY	(4) ITALY	(5) JAPAN	(6) UNITED KINGDOM	(7) UNITED STATES
P. WAITING PERIOD FOR PAYMENT OF LOSS	Immediately, insolvency: 6 mos., protracted default. Political risks – 4 mos.	Immediately, insolvency. Maximum 12 mos. from default. 6 mos. from notice of political risk loss. 30 days after establishment of exchange risk loss. Provisional payment at end of each year for duration of market penetration project.	(a) Immediately insolvency loss determined; provisional payment in 6 mos. if then undetermined. 4 mos. after debtor applies for exchange transfer, if debtor has complied with all contract and legal obligations. (b) Immediately loss determined; provisional payment 3 mos. after insolvency.	(a) 6 mos. after due date, or after debtor's local currency deposit, or after event causing loss. For production cost increase on completion of contract or delivery of goods. (b) 60 days after event causing loss.	Two months after occurrence of loss (as to Policy types a, b, and c – see Subject I): One month after due date (as to Policy type (d).	(a) Immediately– insolvency: 6 months from due date – protracted default: 1 month after resale of goods not accepted; 4 mos. after due date or after buyer's local currency deposit – exchange transfer delay: 4 mos. after due date or after other event causing loss: 3 mos. after due date – direct guarantees to banks. (b) 30 days after insured debt admitted, insolvency: 9 mos. after original or postponed due date – protracted default.	(a) Immediately, insolvency: 6 mos. from due date, protracted default. Political Risks: 3 mos. after exporter submits reasonable evidence that loss was caused by inability to convert to dollars local currency deposited within 90 days after due date; or by other defined political event. (b) Commercial – on satisfactory proof of loss. Political – same as (a) above.
Q. PERCENTAGE OF COUNTRY'S ANNUAL EXPORTS INSURED	Estimate at least 50% of insurable exports. Medium Term – estimate 90% of insurable exports.	All exports (short, medium and extended medium-term) 11.5% in 1962. Medium Term exports practically 100%.	(a) Approx. 10% (b) Not available	Not available	Not available	(a) Approximately 25%. (b) Approximately 1.4%	(a) and (b) 7/1/63 to 6/30/64, credit ins. and g'tees., approx. 4½% (excluding project, commodity, etc. loans by (b).)
R. FINANCIAL OPERATING RESULTS	From Nov. 21, 1944 (inception) to Dec. 31, 1963. ($ Millions) Premium income 8.8 Expense .3.4 Net 5.4 Claims Paid 10.8 Less Recov. 9.2 1.6 Net und. result + 3.8 Invest. Income 7.2 Less Inc. tax 2.8 4.4 Net result + 8.2	COFACE own a/c (com'l. risks) 1962 (F. millions) Prem. income 9.24 Recoveries .27 Invest. Income 1.52 Total 11.03 Operating expense 3.32 Claims paid 2.26 Claims admitted 4.14 Total 9.72 Net und. result + 1.31 GOV'T. A/C, Jan. 1 1929 thru Dec. 31, 1963: On political and transfer risks, accumulated underwriting loss F. 76.8 million, plus undetermined loss on pending claims of F. 45.8 million. On monetary and special commercial risks, accumulated underwriting profit F. 84.4 million.	(a) July 1, 1962 thru June 30, 1963 DM Millions Premium income 56.3 Recoveries 20.6 Total 76.9 Operating expense 6.5 Claims Paid 16.4 Total 22.9 Net result + 54.0* *Does not include substantial payments under consolidation agreements in order to avoid losses. (b) Gross prem. all lines 14.6 Incl. Prems. export cr. ins. (4.0) Invest. etc. earnings 1.2 Total Inc. 15.8 Operating Exp. 4.7 Claims paid 2.7 Claims admitted 6.0 Total 13.4 Net result + 2.4 (all lines)	(a) Millions of Lire 1962 1963 Max. Liability at year end: 410,426 568,132 Prem. in. 4,095 4,904 Recoveries 221 618 Total 4,316 5,522 Expense 166 165 Claims 1,424 189 Total 1,590 354 Underwriting surplus 2,726 5,168 (b) No separate figures for export credit insurance. Year ending Dec. 31/63, net und. surplus total business L. 1,426,650.	From April 1950 to March, 1962 including 5 types of insurance not covered herein (no breakdown available by each type).) Billions of Yen Prem. income 4.5 Recoveries 1.0 Invest. income 2.3 Total 7.8 Operating exp. 0.3 Claims paid 3.3 Claims admitted 1.8 Total 5.4 Net Result + 2.4	(a) Commercial Guarantees (excluding "national interest" transactions). £ stg. million 1961/62 1962/63 Prem. Inc. 9.2 7.1 Recov. 2.1 1.9 Interest 2.3 2.0 Total 13.6 11.0 Expense 1.6 1.7 Claims 4.1 4.6 Total 5.7 6.3 Net und. result + 7.9 + 4.7 On Dec. 31/63, 7,434 comprehensive commercial policies were in force, carrying maximum liability of £ 918.7 million. (b) No separate figures for export credit ins. which accounts for approx. 5% of total credit ins. prem. income. For 1963, prem. was £ 178.316.	(a) Calendar 1963 $ million Prem. Income 1.833 Recoveries .011 Total 1.844 Operating exp. .705 Claims paid .234 Claims admit'd. .994 Total 1.933 Net result (–) .089 (b) Med.-Term Guarantees Calendar Year 1963. Number Issued / Contract Price * $ million To banks 583 312.3 To exporters 25 7.5 Total 608 319.8 G'tee Income $1.076.913 Claims paid – None Expenses - Not segregated *Includes freight, insur. etc. where applicable.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

WAITING PERIOD
PERCENTAGE ANNUAL EXPORTS
OPERATING RESULTS

SUBJECT	(8) AUSTRALIA	(9) AUSTRIA	(10) BELGIUM	(11) DENMARK	(12) FINLAND
P. WAITING PERIOD FOR PAYMENT OF LOSS	Immediately – insolvency: 6 mos. after due date – protracted default: 4 to 6 mos. transfer delay and other political causes. 1 month after non-accepted goods resold, with EPIC approval.	7 months – commercial risks. 5 months – political risks. Individually, other cases.	(a) Pre-delivery – 30 days after loss determined (provisional indemnity if not determined in 6 mos.) Post-delivery – 6 mos., payment default or transfer delay – public debtor; or 30 days after insolvency or 6 mos. after local currency deposit private debtor. Under whole turnover policy, 12 mos. after default by private debtor on short-term credit provided buyer accepted goods and did not contest validity of debt and provided approved credit limit not over BF. 5 million. (b) Case by case.	Insolvency – on proof of loss. Protracted default – 6 mos. after due date. Political – 6 mos. after event causing loss.	3 to 6 months – commercial and political risks.
Q. PERCENTAGE OF COUNTRY'S ANNUAL EXPORTS INSURED	Not available. Only 4 medium-term transactions (total A£ 454,000) in fiscal 1963. High percentage of country's exports involve no credit risk.	Over 5% of total exports – higher percentage of medium-term exports.	(a) 3 to 4% of Benelux exports. (b) Not determined.	Estimated 8% in 1963.	Insufficient experience.
R. OPERATING RESULTS	Fiscal years ending June 30 1962 1963 A£ Prem. income 92922 119108 Invest. income 57234 59067 Total 150156 178175 Operating exp. 79489 82910 Excess income over expense 70667 95265 Claims paid 22182 38031 Recoveries 4679 13038 Underwriting reserve 205234 280338	Calendar Years A.S. 000 1962 1963 Prem. income 5969 6021 Recoveries 2154 2899 Total 8123 8920 Operating exp. 716 723 Claims paid 252 369 Total 968 1092 Net underwriting result + 7155 7828	(a) BF Millions 1962 Premium income 95.308 Recoveries 43.080 Investment income 70.308 Total 208.705 Operating expense 15,108 Claims paid 32.974 Total 48.082 Net Result + 160.623 (b) 1962 – Premium income BF 142.687 million (1961 BF 122.6). Net profit BF 24.04 million (1961 – 22.5). No break down to show export credit insurance results.	(Kr. 000) 1961 1962 Premium income 9139 12840 Recoveries 445 335 Total 9584 13175 Operating exp. 1330 1433 Claims paid 1134 2333 Total 2464 3766 Net result + 7120 9409	Year 1963 (F.M. 000) Premium income 127 Claims paid — Total expenditure 228 Deficit 101 On Dec. 31, 1963, 22 policies were current, with total liabilities of FM. 8.7 million under guarantees issues and total liabilities of FM. 129.75 million under guarantees promised.

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

WAITING PERIOD
PERCENTAGE ANNUAL EXPORTS
OPERATING RESULTS

SUBJECT	(13) HUNGARY	(14) INDIA	(15) IRELAND	(16) ISRAEL	(17) NETHERLANDS
P. WAITING PERIOD FOR PAYMENT OF LOSS	Immediately on determining loss – provisional indemnity in 6 mos. if loss then undetermined. 12 mos. – protracted default.	Insolvency – 1 month after admission of debt against insolvent estate. Protracted default – 6 mos. after due date. Non-acceptance in violation of contract – 1 mo. after goods resold. Political risks – 4 mos. after event causing loss. Claims assigned to banks and packing credits – 4 mos. after due date.	Political – 6 mos. Commercial – Insolvency 1 month Protracted default, 6 mos.	Insolvency, immediately. Protracted default, 12 mos. from due date provided debt not disputed. Transfer delay – 6 mos. after local currency payment but not less than 6 mos. after due date – 6 mos. after other political event causing loss.	Insolvency, when loss determined. Other causes generally 6 mos. after due date for developed countries, 9 mos. other countries.
Q. PERCENTAGE OF COUNTRY'S ANNUAL EXPORTS INSURED	Not available.	Short-term, about 4% of total exports. Medium-term – about 15% of exports on credit terms.	Not available.	Financial year 1962–3, 10% of total exports (25% of industrial exports).	1962 – 6.2%: 1963 – 5.8% of total direct exports.
R. FINANCIAL OPERATING RESULTS	No published figures. Favorable experience to date.	For 3 years – Jan. 1961 to Dec. 1963 (Rupees) Premium income 1,557,914 Recoveries on claims 511,832 Invest. income 781,055 Total 2,850,801 Operating expense 1,041,016 Claims paid 1,237,352 Total 2,278,368 Net result + 572,433	Political risks premium income reported as approx. £7.000 annually, covering approx. £1 million exports. No published figures on commercial risks.	Fiscal Year to March 31 1961-2 IL / 1962-3 IL Premium inc. (incl. registration fees) 412,997 / 519,821 Recoveries 5,859 / 24,610 Investment inc. 796,858 / 110,947 Total 1,215,714 / 655,388 Operating exp. 119,329 / 129,548 Claims Paid 9,046 / 147,832 Claims Reserve 245,343 / 197,160 Total 373,718 / 474,540 Net result (+) 841,996 / 180,848	Fiscal Year to Dec. 31 Fl. millions For company a/c: 1962 / 1963 Gross prem. inc. 17.00 / 18.40 Net profit 0.349 / 0.327 For Govt. a/c: Accum. surplus 1946 to 1961 incl. 48.2 1946 to 1962 incl. 58.0 Net prem. income 9.2 / 9.3 Recoveries 3.0 / 5.0 Total 60.4 / 72.3 Claims paid 2.4 / 8.7 Accum. surplus to Dec. 31 58.0 / 63.6

WORLD'S PRINCIPAL EXPORT CREDIT INSURANCE SYSTEMS

WAITING PERIOD
PERCENTAGE ANNUAL EXPORTS
OPERATING RESULTS

SUBJECT	(18) NORWAY	(19) PAKISTAN	(20) SOUTH AFRICA	(21) SPAIN	(22) SWEDEN	(23) SWITZERLAND
P. WAITING PERIOD FOR PAYMENT OF LOSS	Insolvency – 2 mos. from proof of insolvency. Protracted default – 12 mos. from due date. Political – 6 mos. from due date, or from event causing loss.	Insolvency – immediately. Protracted default, 6 mos. after due date. Other causes of loss, 6 mos. after event.	Insolvency – immediately on proof. Protracted default – 6 mos. after due date. Political – 6 mos. after event.	(a) 30 days after final loss determined. (b) 6 months after event causing loss.	(a) 6 mos. after political event or default by public buyer. Maximum 45 days after final commercial loss determined. (b) 30 to 60 days from proof of loss.	(a) 6 mos. from event causing loss. (b) Immediately on proof of insolvency.
Q. PERCENTAGE OF COUNTRY'S ANNUAL EXPORTS INSURED	1963 – approx. 6%. High percentage of country's exports involve no credit risk. Medium-term (capital goods) credits normally require credit insurance for bank financing.	Insufficient experience.	Short-term – 11% of total merchandise exports (excluding gold) year 1962. Medium-term – negligible.	(a) and (b) Not available.	(a) Approx. 4%. (b) Not available.	(a) Short-term – 3%. Medium-term – 20% (b) Not available.
R. FINANCIAL OPERATING RESULTS	1963 (N. Kr. 000) Prem. income 4.068 Recoveries 19 Total 4.087 Operating exp. 472 Claims paid 366 Total 838 Net result + 3.249 Net result since inception to 12/31/63 + 14.023	Not available	From 7/1/59 to 6/30/63 / From 7/1/62 to 6/30/63 (Rand 000) Prem. inc. 1,206 / 446 Recoveries 9 / 4 Other inc. 66 / 20 Total 1,281 / 470 Expense 283 / 99 Claims 304 / 80 Total 587 / 179 Net result + 694 / + 291	(a) 1962 / 1963 (Pesetas 000) Prem. inc. 19,656 / 17,245 Invest. inc. 542 / 397 Total 20,198 / 17,642 Operating expense 2,526 / 1,879 Claims paid (net) 420 / 208 Claims admitted for payment 85 / 200 Total 3,031 / 2,287 Net result + 17,167 / 15,355 (b) Not available.	(a) July 1/62 – June 30/63 (S.Kr. 000) Prem. inc. 3,933 Recoveries 74 Invest. inc. 1,703 Total 5,710 Operating exp. 817 Claims paid 125 Total 942 Net result + 4,768 (b) No separate a/c of export credits 1962 (S.Kr. 000) Prem. inc. (total) 5,091 Net profit 353	(a) 1962 (S.Frs. 000) Prem. inc. 5,083 Recoveries 229 Total 5,312 Operating exp. 182 Claims paid 1,266 Total 1,448 Net result + 3,864 (b) No separation of domestic and export credits. For year to Dec. 31, 1962, Credit and Guarantee Dept. published figures showed: (all S.Fr.): premiums written 3.311 million; claims paid (gross) 729,718; commissions and expense (gross) 1.433 million. Claims reserve 950,000.

NOVEMBER • 1964



THE INTERNATIONAL LETTER

IRVING TRUST COMPANY INTERNATIONAL DIVISION / ONE WALL STREET / NEW YORK

Eximbank and the US Export Drive

IN THE PAST FEW YEARS, Washington's Export-Import Bank has significantly improved its programs and policies and has helped make American exporters more competitive abroad, but it still has a way to go if the goals of the Export Expansion Program are to be met.

Eximbank has adapted its programs to meet the need of exporters for various types of export credit. It has a long-term financing program, medium-term guarantees against all risks, and a short- and medium-term insurance program operated by the Foreign Credit Insurance Association (FCIA). One reason for its limited role in the context of total US exports *(see box, p. 4)* is the fact that many American firms have not yet taken full advantage of its facilities.

PROJECT FINANCING

The largest Eximbank program consists of providing direct financing to foreign buyers of American goods and services for periods of five to 20 years, now at a standard 5.5% interest rate. Project loans have ranged in size from a few thousand dollars to more than 100 million, but most are in the several-million-dollar area. Some typical examples during 1964 are:

- A $3.2-million credit, repayable over eight years beginning in 1966, to Ingenio Riopaila, Ltd. of Cali, Colombia, to purchase equipment and related services necessary to increase refined sugar production from 50,000 to 110,000 tons a year. Total cost of the project is about $15 million. Among the American firms that will make sales as a result are Combustion Engineering (two boilers), Westinghouse (electrical equipment), Philadelphia Gear (reduction gears), and Arthur G. Keller of Baton Rouge, which is providing engineering services.

- A $2.3-million credit, also repayable over eight years beginning in 1966, to Productora de Papel of Monterey, Mexico, to purchase paper mills. Total project cost is $3 million, and Beloit Corp. is the principal supplier of equipment.

- A $27-million credit, repayable over 12 years beginning in 1967, to Coromandel Fertilizers Ltd. in India. Total project cost is over $60 million. Coromandel is a new venture to be 47% owned by International Minerals and Chemical and California Chemical.

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The Meaning of "Financed Portion"

Eximbank and FCIA never guarantee more than a specific share of the invoice value of a medium-term shipment. In general, the foreign buyer must make a down payment of 10-20%. What is left is called the "financed portion." Usually, an exporter will retain the credit risk for 15% of this amount. The remainder —normally 68% of the invoice value—is then covered by the guarantee. In its short-term program against comprehensive risks, FCIA insures 85% of total invoice against commercial risk, 95% against political risk. In a short-term policy against political risk only, FCIA covers 90% of the invoice value. These percentages vary slightly under the various programs.

Other recent project loans have financed the export of a cement plant, steam-turbine generating units, diesel engines, and automotive, construction, and road building equipment. As can be noted from the Coromandel example, Eximbank assistance can play an important part in the financing of new manufacturing operations, especially in developing countries.

GUARANTEE PROGRAMS — MEDIUM-TERM

Eximbank's next largest area of direct assistance to American exporters is the program under which it guarantees credits extended by commercial banks for overseas sales of capital and durable goods on medium-term credit from six months to five years (seven years for jet aircraft).

Under the guarantee program, down payments range from 10% to 20%, depending on the country. The exporter, as usual, retains 15% of the financed portion (*see box this page*). The commercial bank bears the commercial risk on the rest of the financed portion for the first half of the maturities up to 18 months. Eximbank covers the political risk on the early maturities, and commercial and political risks on the later maturities.

In August, Eximbank instituted a new procedure in this program, under which selected commercial banks may commit Eximbank, without its prior approval, to guarantee 100% of the political risk and 50% of the commercial risk on the financed portion of export sales of up to $500,000. The commercial bank, however, must finance the sale without recourse to the exporter, and the buyer must be one of about 45 selected borrowing countries.

It is too early to evaluate the new $500,000 discretionary procedure, but it is clear that it is a major step in the right direction. The non-discretionary program has been working reasonably well, although some exporters have complained of approval delays and that Eximbank's charges are a good deal higher than those of competitive foreign institutions.

During the second half of 1963, the largest medium-term guarantee covered an $11.5-million sale of jet airplanes by Douglas Aircraft, the smallest, $4,800 worth of sales by California Pellet Mill Co. and by Caterpillar. The average guarantee was well under $1 million, and, with aircraft and agricultural sales removed, it was nearly $300,000. By far the greater portion was well below the latter figure.

FCIA INSURANCE POLICIES

Medium-term as well as short-term (up to six months) insurance policies are provided by FCIA, a group of more than 70 insurance companies whose policies and procedures are coordinated with Eximbank, which assumes the political risks of all its policies. FCIA opened for business in February 1962. In its short life, it has shown flexibility and is endeavoring to improve its programs. It provides four major types of insurance:

- Medium-term comprehensive insurance covering both political and commercial risks;
- Medium-term political-risk insurance only;
- Short-term comprehensive insurance covering political and commercial risks; and
- Short-term political-risk insurance only.

In addition, coverage is available for goods on consignment, items at foreign exhibitions and trade fairs, products in process of manufacture, technical services, leased goods, and, for up to 12 months, surplus agricultural commodities. It may provide contract insurance from the date of the order as well as the date of shipment.

An important difference with Eximbank's commercial-bank guarantee program is the requirement for non-recourse financing by the bank. If a bank feels it is unable to grant credit to an exporter without recourse, the exporter may apply to FCIA for credit and political-risk insurance. Then he returns to his bank for financing with recourse. If FCIA turns him down, he may then apply directly to Eximbank for a guarantee. By value of coverage, exporters use the FCIA medium-term insurance a good deal less than Eximbank guarantees. Most of the policies are for relatively small amounts.

FCIA's major activity is the writing of short-term insurance policies for exports of goods on terms of up to 180 days. Under this program, the exporter arranges to have *all* his short-term export credits covered by FCIA in New York. He then arranges financing of the insured exports with his bank, assigning the insurance policies to it.

The "whole turnover" requirement, which excepts only sales on cash letter of credit and to Canada, has caused many firms to refuse to use the FCIA short-term program. This is simply because they are not interested in paying an insurance premium on sales to foreign buyers with whom they have been dealing satisfactorily for many years, much less to their own affiliates and licensees. FCIA has met this issue by agreeing to limit coverage to a selected group of foreign buyers or product lines, as long as it is given a "reasonable spread of risk." This means that a package may be negotiated excluding subsidiaries, certain products, or large, low-risk buyers.

A larger problem in the developing FCIA program is the high cost of premiums. While FCIA has reduced its charges several times, it is still in some respects more expensive than a number of government-backed export insurance agencies in other countries, although differences in specific risks covered make comparisons difficult. Charges vary widely, depending, among other factors, on the country to which the goods are sold, the length of the credit, whether the coverage is comprehensive or just against political risks, mode of payment, evaluation of the buyer, and, sometimes, the exporter's qualifications.

Exporters also complain that FCIA takes too long to negotiate policies (mainly because its credit files have not been built up sufficiently), that it should be more flexible in permitting departures from the "whole turnover" principle, length of credit term, and mode-of-payment requirements. There is particular criticism of the difficulty in negotiating the discretionary limits allowed for sales to individual foreign buyers.

FCIA and Eximbank counter these arguments by claiming that they are becoming more flexible as they gain experience, that rates are being reduced as fast as possible, that FCIA has indeed moved ahead in an aggressive fashion. It can cite impres-

What Are Commercial and Political Risks?

Commercial risk is defined as insolvency of the buyer and, in a broad sense, "protracted default in payment," i.e., failure on the part of the buyer to pay the exporter within 180 days of the due date for products delivered and accepted, excluding any loss insurable under political-risk coverage.

Political risks are those resulting from action by governments that prevent receipt of payment in dollars. The main political risk is the transfer risk, the inability of the buyer to remit dollars to the exporter. Other political risks include cancellation or non-renewal of an import or export license; war, rebellion, or other disturbances that prevent payment in dollars; and government expropriation or intervention in the business of the buyer.

sive evidence of its aggressiveness. During its first two and a half years of operation, it paid almost $765,000 in claims and had another $4 million in claims pending. There seems to be no question that continued business use of and negotiation with FCIA and Eximbank will lead to improvement of the short-term program. The two agencies seem determined to make the program the equal of any abroad. The United Kingdom's Export Credit and Guarantee Department provides a high target for performance. It now insures more than 25% of Britain's total exports and processes 97% of its inquiries within 48 hours.

IMPROVING THE PROGRAMS

The success of efforts to improve FCIA's services hinges on several policy decisions by Eximbank. Some exporters and bankers have been waging a campaign to persuade it to swing its programs and resources more fully into the export expansion effort. Criticism of Eximbank is leveled mainly at two factors: its conservatism and its timidity toward exposing itself in some weak foreign markets. Too many exporters have seen Eximbank refuse credits or guarantees on a sale to a country it considered fully "loaned up" only to witness that country order the goods from another nation whose credit-guaranteeing institution was glad to help make the sale.

Eximbank has a magnificent record of earning profits for the US Treasury, but, ask its critics, should an agency that is so crucial in the campaign to increase American exports be primarily devoted to profit-making? Eximbank, according to a good many of its critics, should be taking calculated risks to help firms to boost their foreign sales. Instead of earning $100 million or more a year, it should aim at a smaller profit, using the difference to reduce its charges and FCIA's, and to improve and speed services. Increased speed of decision could lead to the granting of some loans or guarantees that might, on long, sober reflection, not have been approved, but it would also have a dramatic effect in raising US exports. Similarly, critics claim, Eximbank should remove itself from programs that compete with private institutions and devise programs and policies that would open new frontiers of foreign earnings to American firms.

Early this year, Eximbank initiated a program to provide commercial- and political-risk guarantees to commercial banks that finance exports of capital goods without recourse on terms of more than five years. This program should be implemented.

A high-level committee, chaired by Secretary of Commerce Luther Hodges, is presently evaluating Eximbank's and FCIA's programs. It is hoped that it will recommend the adoption of proposals for more dynamic government assistance to exporters. In the meantime, American firms should make the fullest use of the many programs now available.

Eximbank and FCIA Programs and US Exports in Fiscal Years 1961-64
(in $ millions)

Eximbank programs	1961	1962	1963	1964
Project loans	707	555	525	570
Medium-term exporter credits	145	35	40	31
Medium-term guarantees				
- to banks	—	110	141	217†
- to exporters	—	19	7	—
Short-term guarantees	153	—	—	—
Other*	409	811‡	198	181
FCIA programs				
Medium-term insurance				
- comprehensive	—	—	20	53
- political only	—	—	2	8
Short-term insurance				
- comprehensive	—	33	524	622
- political only	—	—	15	61
Total	1,414	1,861	1,474	1,743
Percent of US exports	6.8%	8.6%	6.7%	7.0%

* Commodity credits and guarantees, consignment insurance ($6 million in 1963, $3 million in 1964), and emergency foreign trade credits.
† Includes some commodity credits.
‡ $400 million in one transaction to Canada.

The CHAIRMAN. We will recess now, to reconvene tomorrow morning at 9:30.

(Whereupon, at 12:19 p.m., the committee adjourned.)

EXPORT EXPANSION

THURSDAY, MARCH 18, 1965

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

The committee met at 10 a.m., in room 5110, New Senate Office Building, the Honorable Warren G. Magnuson (chairman of the committee) presiding.

The CHAIRMAN. The committee will come to order and the Chair apologizes. He was going to start at 9:30 and he didn't make it, but we will begin.

Other Senators will be here shortly, but we still have a long list of witnesses. We suggested that Mr. Porter and others come back this morning.

Thus far we have progressed to Mr. Harr, and we will be glad to hear from you.

Mr. Karl G. Harr, Jr., president, is accompanied by Jack T. Bradley, director, International Committee, Aerospace Industries Association of America, Inc., located at 1725 DeSales Street, Washington, D.C.

We will be glad to hear from you.

STATEMENT OF KARL G. HARR, JR., PRESIDENT; ACCOMPANIED BY JACK T. BRADLEY, DIRECTOR, INTERNATIONAL COMMITTEE, AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

Mr. HARR. Thank you, Mr. Chairman.

The CHAIRMAN. You have a short statement, and we are anxious to have you read it.

Mr. HARR. Thank you.

Our association represents the manufacturers of aircraft missiles, and spacecraft, including their engines, components, accessories, and parts.

A healthy and growing export market is of vital concern to our industry. Over the past 5 years, we have exported annually substantially in excess of a billion dollars of aerospace products.

This volume not only makes us the Nation's largest manufacturing exporter; its ratio to total sales reflects the increasing dependence we are placing on the export market. Moreover, our range of exported or exportable products is steadily widening.

Present trends in our overseas sales show constantly rising dollar volumes for such elements as utility aircraft and helicopters.

The principal elements of our industry's commercial exports are transports, utililty aircraft, rotary-wing aircraft, and aircraft engines, together with their supporting accessories, components, and parts.

In each of these categories, we believe there exists a potential market for a substantially increased export volume of U.S. aerospace products.

The implications of such a volume of export sales in terms of the Nation's balance-of-payments problems are, of course, obvious.

Equally obvious is the self-interest of the industry itself in maintaining and expanding so important a segment of its overall sales.

However, there are additional national and industrial interests involved. The high unit cost of our product means that in many cases the determining factor as to whether or not to invest in research, development, and production of new equipment is the estimated size of the nondomestic market.

In such cases, the absence or inadequacy of the foreign market can tip the scales against the development of products for the domestic market.

These are the reasons why the availability of the maximum export market is important to us in the industry, and, we submit, to the Nation as well.

Everyone is aware that international competition has intensified for all markets: the U.S. market (which is the world's largest), the market composed of developed countries already possessing air transportation systems, and the increasingly significant market composed of less developed countries which are just beginning, on the verge of, or ripe for the development of domestic air transportation systems.

The CHAIRMAN. When you mention domestic air transportation systems in the so-called underdeveloped countries, or even some of the smaller countries, you are thinking not only in terms of international flying, but also in terms of serving their own local areas.

It may be small route mileage that could include a certain area of a continent rather than a big overseas trunk line, may it not?

Mr. HARR. That is correct.

The CHAIRMAN. Similar to what we call our local transport airlines.

Mr. HARR. To start with, I was talking in terms of complete systems, which of course vary from country to country.

The CHAIRMAN. They would connect, of course; and I think one of the great values of the objective of this bill is the opportunity it offers to encourage that, which in turn would encourage air travel to the great international trunk lines because so few of those people take advantage of it because there is no connection.

Mr. HARR. That is correct, sir. There is an additional aspect of it, which is the use of internal aviation systems as a development tool itself, depending on the country.

In other words, in many cases it is hard to generalize because each country's situation varies, but there is great immediate potential for rapidly upgrading their internal transportation without the substantial investment of time and capital that is normally involved in some other areas.

The CHAIRMAN. A great number of them want an international airline, for many different reasons. The terrain of some of these countries requires air transport, better air transport than they have, and it helps the development of the countries. The more we do, the more sales potential people who are in the airplane business will have. I haven't the exact figure, but I believe that only about 3 or 4 percent of the people in the world have ever been in an airplane, let alone in the large ones; it may be less than that.

Surely, in the future there will be more, and we have an opportunity, due to our superiority in the air, in manufacturing and otherwise, to make these sales if we can work out some arrangements whereby they can pay for these airplanes.

Senator DOMINICK. Mr. Chairman.

The CHAIRMAN. Yes, sir?

Senator DOMINICK. When you are talking, Mr. Harr, about less developed countries which are just beginning, on the verge of, or ripe for development of domestic air transportation systems, what countries are you talking about?

Mr. HARR. Well, there are so many of them, Senator Dominick; but we are now primarily concerned with countries outside of Europe, and a few in the Far East, the Continent of Africa, parts of Asia, and a good part of Latin America.

I have made——

Senator DOMINICK. Let's just be specific. This is what I am trying to find out because it sounds great, but I want to find out what countries we are talking about.

Mr. HARR. Our salesmen are all over the world, but certainly——

Senator DOMINICK. You don't have salesmen going into Mali or places in upper Africa.

Mr. HARR. Our salesmen are not going to these countries with the specific intent at all times to set up an overall transportation system, Senator Dominick; but there are many immediate and particularly applicable uses for aviation in these countries in their present stages of development.

Senator DOMINICK. Are we talking about Brazil, or are we talking about the Union of South Africa, or what are we talking about?

Mr. HARR. Iraq, Iran, Israel, Mexico, Argentina, Chile, Pakistan, India, New Zealand——

Senator DOMINICK. We are trying to sell these countries complete transportation systems?

Mr. HARR. We are trying to aid in building them up.

Senator DOMINICK. Mexico has its own already.

Mr. HARR. They have an international airport but not the complete internal system.

Senator DOMINICK. As far as I know, we are down there in pretty good strength. I think you can fly pretty near any place inside of Mexico on their airline.

Mr. HARR. Aeronaves is a well established airline, sir, and I am afraid I am trying to give you general answers which when looked at in each specific case become a matter of degree. In some cases the purpose is to expand the airline.

Senator DOMINICK. Let me ask you another question. Let's agree that there are areas in this world where American transportation systems can be very well used and our transportation ideas can be very well utilized.

What is this bill going to do to promote those which you wouldn't otherwise have?

Mr. HARR. We believe, sir, at this point, in the evolution of the marketplaces, speaking generally, around the world, the trend, the potential in the future will be more and more heavily directed to the less developed areas.

In other words, I am now really talking about everything beneath the rather highly developed countries that already have established airlines. In approaching that area, you encounter the problems involved in foreign exchange and capital scarcity. More and more there is a need for special financing.

The basic reason for our support of this bill, viewing it in its entirety, is that its provisions provide the flexibility to meet these special financing demand situations.

We believe that we are not, for a moment, suggesting or advocating the granting of unsound, financially unsound, loans; nor do we believe that the bill, in any way, advocates that.

We are saying, that with particular respect to our product, there are special circumstances, and I would like to put in parentheses here one of the principal ones, which is as follows: that if you are the supplier of the initial system, if you get your equipment in originally, then you are established with that customer to a very substantial degree.

So in evaluating the overall value of a loan or financing, the significant factor is not the original sale, but the long-range projection of the future of that country's aviation.

To a considerable degree, this is the reason the project is undertaken.

Senator DOMINICK. Mr. Harr, I don't pretend to be an expert, and I have been a pilot for 30 years, and I have been pretty closely connected with the aviation industry. You know as well as I do that the main sales we are making overseas, particularly to the smaller countries right now, are the Douglas DC–3, and we have been doing this for a long time. It is probably one of the greatest airplanes ever developed. But we are bringing those airplanes in and putting them in places, wherever they have them now.

So the fact that we weren't in there originally does not have a thing to do with it. We provided them with a better airplane at a cheaper price, and that is why they bought it.

Where they are not using those, they are going over with a Convair and using some of those. So what I am trying to get is something specific. What is this bill going to do for the aerospace or the aviation industry in those countries which you wouldn't have anyhow without the bill?

Mr. HARR. In the last paragraph or two of my submitted prepared statement, Senator Dominick, I tried to list the specific aspects in which we think this bill, by amending the Export-Import Bank Act of 1945, produces a flexibility to permit nations, or governments, or airlines abroad to secure financing when they can, when it is in their interest as they determine to buy aviation equipment.

Senator DOMINICK. I am not trying to be difficult, but give me a specific example, will you?

Mr. HARR. Of——

Senator DOMINICK. Give me some instances, specific instances. Israel wants to buy umteen dozen DC–7's, or whatever it may, and she can't do it, and whatever you are talking about, something specific.

Mr. HARR. I can give you two examples, Senator Dominick, of a country in Latin America and a country in Africa, both of which may be included in the broad spectrum of lesser developed countries, that now have foreign-made air fleets; I would like to add that each of these countries originally approached the United States.

In the case of the Latin American country, Argentina, its principal airline was fully equipped with American-made aircraft 10 years ago. Now it is virtually fully equipped with British- and French-made aircraft.

At the time the reequipment of their fleet was to be made, airline officials came to the United States, and an attempt was actually made to secure financing from the Export-Import Bank; the airline request for financial aid was denied on the basis of excessive credit exposure.

Senator DOMINICK. Excessive what?

Mr. HARR. Credit exposure, financing exposure, for the area as a whole.

Senator DOMINICK. The Government of Argentina was trying to get——

Mr. HARR. The airline.

Senator DOMINICK. And the Export-Import Bank said no, that it wouldn't finance the airline sales into the Argentine?

Mr. HARR. That is correct, it wouldn't finance the sale.

Senator DOMINICK. Because of what reason? Excessive what?

Mr. HARR. In the judgment of the Bank, the country, Argentina, had reached its maximum credit exposure on an overall basis.

The CHAIRMAN. The Export-Import Bank will testify that in some cases, because they have been making special project loans to a country; Brazil is an example, they have reached a point where they feel any other loan might be too much in that particular country and might jeopardize the previous loans, and this has happened in many cases.

It could be purchases of farm machinery or anything else, where they are loaned up in one country, and other countries may have nothing. We don't suggest in the legislation that if that is the case, and that is their best judgment, that they should change their decision, but we suggest a flexibility in some cases of long-term credits where it might not affect the previous loans they have made.

What happens in these countries—and I am not an expert either, but I have been around aviation a long, long time—what happens is that they have equipment; it is old and antique in many cases. I understand there are some Ford trimotors flying around these countries yet, but they would like to modernize their domestic air fleet, and they would like to buy American planes. The simple fact is that they get better credit terms from the French and English and new modern planes. It is as simple as that.

The Export-Import Bank may in a certain country decide that this is not a good policy because they have been fully loaned in that country, and this may add too much to it. But there are many countries where they are not fully loaned, and as we said yesterday, there seems to be an impression that because a loan is a long-term loan, a long-interest loan, that therefore it is not as sound as a short-term loan.

Sometimes a loan can be more sound by extending it, making it a sure thing. But most of the equipment in these countries is particularly for the domestic use, or it may be for a group. I suppose in Africa a group of countries might want to have, like our local transport system, some new equipment. Some of them just can't do it, and maybe a long-term loan would be sound.

This is what we are seeking. The small jets are not far around the corner, but most of the countries you mentioned have gone into aviation. But what do they do? All they wanted was an international

line, and they could buy one or two or three or four big jets for that particular purpose. And that is about all they could scrape up.

It became a matter of national prestige and all of the countries want an international airline. I even had a caller last fall from San Marco who wanted to get an international fleet. All of the nations do, and they all want to land in the United States some place, and this is a political problem, of course, a State Department problem, but I think the great field is in development of their own domestic lines with new modern equipment, which they want to do

People are demanding it in these countries. All of a sudden they feel they should have better equipment and they will get more passengers. Some of these places in South America, I have flown in, I think they could quadruple in 1 year their airplane passage with modern equipment, which we can make and sell to them, if they can get credit and pay it back. There are literally hundreds of planes that should be replaced.

Senator DOMINICK. Mr. Chairman, let me ask Mr. Harr if he feels that way, why doesn't the aviation industry, itself, extend the credit?

The CHAIRMAN. I can answer that question very quickly.

Mr. HARR. We participate in financing to the extent that we can, Senator Dominick. It is a question of amounts needed.

Senator DOMINICK. I can't hear you.

Mr. HARR. I am sorry, sir. I say it is a question of volume of capital required.

The CHAIRMAN. I think the Senator from Colorado may know—I know of two or three—which extend as much credit as they possibly can and participate as deeply as they can, but when you talk about $8 or $10 million airplanes, or even $5 or $6 million airplanes——

Senator DOMINICK. We are not talking about that kind, are we?

The CHAIRMAN. Yes, sir; small jets. Some of the countries have loaded up with—not loaded up—but have bought the others, but when they get a fleet, the run into $10 or $12 million, and these aircraft companies, although they have big business, they haven't got too much net worth.

Mr. HARR. That is true.

The CHAIRMAN. They haven't got too much of a credit line when they get beyond certain levels—this is the problem with the supersonic development right now for the aircraft manufacturer.

But I want to ask you this question. I think maybe this might clear up, a little bit, Senator Dominick's question and we will get the evidence. Do you know of any instances in which an exporter has refused credits or guarantee to a country which is considered "fully loaned"—this is the term they used—only to have that country order goods or services from another nation whose credit guaranteeing institution was only too happy to make the sale?

Mr. HARR. That is the Argentine story. We believe that is the Ghana story now, too.

The CHAIRMAN. I am sure we will have many instances.

Senator DOMINICK. That is what I was trying to do—to get some of the specifics in here.

The CHAIRMAN. I interrupted here. I didn't mean to. He hadn't finished this short statement. If you will finish that.

Mr. HARR. The technological advantages long possessed by U.S. manufacturers are still present, but they are no longer unchallenged.

Formidable British and French contenders for various segments of the aerospace market, in the United States as well as throughout the world, have entered the competition.

There are indications that the Soviet Union may soon constitute a third major foreign contender. And, technological superiority, important as it is, is far from the sole determinant as to who shall win the various marketplaces. We have seen this even in the U.S. marketplace, and it is even more true outside our borders.

The Export-Import Bank has given substantial support over the years. Since its inception, the Bank has participated in financing international sales of $846 million worth of U.S. aircraft and components, granting total loans of $590 million toward that end.

Despite this dollar volume of financing assistance, however, there are deficiencies in our Government support in financing U.S. overseas aerospace sales which place U.S. manufacturers at a substantial competitive disadvantage.

This disadvantage becomes increasingly significant as the competitive arena shifts more and more to lesser developed countries, a trend which is already well underway.

The principal deficiencies in present financing assistance by the Government, in our opinion, are focused in three areas:

First, the inability or unwillingness to provide advance commitments. The competitive advantage afforded to a foreign exporter who can, in the course of his sales proposals, produce a substantial degree of advance commitment of financing by his own Government, is an overwhelming one.

Second, the policy of denying special financing on the basis of regional exposure rate criteria. This is what we have just been talking about. This policy frequently results in foreign competitors skimming off the cream of the international sales market, even where the principal supporter—in the form of governmental economic assistance—of the national market involved is the United States.

Third, insufficient flexibility in credit terms and interest rates. Where U.S. credit terms are not revised adequately to reflect knowledge gained by experience as to the useful life of equipment, sales opportunities are needlessly jeopardized.

And, particularly in the lesser developed countries, where U.S. credit terms are not comparable to those of our foreign competitors, regardless of decisions based on technological comparisons, sales will be lost.

We believe that S. 558, either explicitly or implicitly, addresses itself to remedying each of these deficiencies in its title II: Amendments to the Export-Import Bank Act of 1945. Therefore, whereas we support the entire bill, it is primarily to title II that we direct our attention.

We believe that title II, through its amendments to the Export-Import Bank Act of 1945, establishes an important clarification of congressional intent as to the nature of financing support: First, by stating explicitly for the first time the intent that the United States be "fully and effectively competitive in its financing arrangements with other countries in the development and maintenance of world markets"; by specifically identifying the national interest as the ultimate criterion; by providing for the assumption of credit risks; by providing that credit terms may be set at less than prevailing commercial levels; by providing for the establishment of an interdepartmental ad-

visory committee to consult on the national interest involved in specific proposals; and, finally, by its funding provisions, and by excepting from limitation the proposed types of special financial assistance.

It is our conviction that the impact of these amendments will firmly establish congressional intent and provide adequate statutory authority for remedying the existing deficiencies outlined above. We strongly urge their enactment.

That is the end of my statement, Mr. Chairman.

The CHAIRMAN. I have some further questions. At this point, I would like to follow your statement and put in the record a letter to the chairman from one of the large airplane manufacturers which bears out substantially what you say.

It says two-thirds of the sales to date have involved long-range jet transports and American manufacturers had a decided technical and delivery position advantage. However, in the future, short- to medium-range aircraft and supersonic transports will constitute a major portion of the market potential and the British and French manufacturers are in a position to meet American manufacturers head on.

Second, it is clearly evident that financing will play an ever-increasing role in aircraft selection. Two-thirds of all of the jet aircraft sales to foreign airlines, who have not made equipment decisions, are largely outside of Europe—I emphasize "equipment decisions"—in the developing nations of the Middle East, Africa, Latin America, and Asia. They are located in foreign exchange and capital scarce areas and, in our opinion, their purchase decisions will be based largely on financing availability rather than on technical considerations.

The letter also mentions the loss of sales in the future if somebody else goes in, which you mentioned, and they conservatively estimate that there will be at least $3,500 million of subsonic jet transports purchased by foreign airlines between 1965 and 1973, and this compares with $3 billion sold total to date.

This is from William Allen, president of the Boeing Co., and all of the other manufacturers will have similar statements.

I also put in the record a letter from Northwest Airlines, and I am sure there will be some other airlines strongly recommending this, even though they may be in competition overseas.

(The documents follow:)

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
5202 New Senate Office Building, Washington, D.C.

DEAR SENATOR MAGNUSON: Over the past 10 years, U.S. aircraft manufacturers have pursued aggressive programs directed at the sale of commercial jet transports in the export market. Such programs have been extremely important in that the export market represents a significant portion of the total market for commercial jet transports. It is mandatory that efforts be intensified to meet the increasing competition for this market. Success in this endeavor will have an important corollary benefit; namely, a significant positive contribution to the balance-of-payments problem. We, therefore, are vitally interested in and fully support any activity on the part of the U.S. Government which will assist industry in carrying out its efforts to increase foreign trade.

Since our commercial jet transport program was inaugurated, Boeing has sold for export, aircraft valued in excess of $1.1 billion to 22 airlines located in 17 countries. Twelve of these airlines financed their purchases through the Export-Import Bank. Without the valued assistance of the Export-Import Bank, a substantial portion of this business would have been lost.

The prospective market for jet transports appears very promising. It is estimated that upward of $3.5 billion of subsonic jet transports will be purchased by foreign airlines between 1965 and 1973. This compares with $3 billion sold to date. Supersonic transports which will be offered for sale during this time period will add substantially to the total market potential. The competition for the subsonic and supersonic markets by British and French manufacturers will be severe.

The competitive considerations with respect to this potential market are different from those experienced to date. First, two-thirds of sales to date have involved long-range jet transports and American manufacturers have had a decided technical and delivery position advantage. However, in the future short-to-medium-range aircraft and supersonic transports will constitute a major portion of the market potential, and British and French manufacturers are in a position to meet American manufacturers head on.

Second, it is clearly evident that financing will play an ever-increasing role in aircraft selection. Two-thirds of all jet aircraft sales to foreign airlines who have not made equipment decisions are largely outside of Europe in the developing nations of the Middle East, Africa, Latin America, and Asia. They are located in foreign exchange and capital scarce areas and, in our opinion, their purchase decisions will be based largely on financing availability rather than on technical considerations.

We are concerned that, in many instances, sufficient evidence of individual airline financial strength will not be available to satisfy the traditional standards of the Export-Import Bank. Further, certain foreign airlines might be domiciled in countries with exchange problems or in countries where the Export-Import Bank feels it is overextended. Despite these considerations, we believe that certain of these airlines have good management with capabilities of profitably operating the equipment.

If sales are lost to foreign manufacturers by reason of not being able to offer financing it must be recognized that follow-on sales opportunities are also lost for the next 6 to 10 years. Lack of acceptable financing proposals does not preclude foreign airlines from buying aircraft. Our foreign competitors, being government owned and sponsored, will provide financing. They are willing to take risks in that they recognize the long-term implications of the initial sale.

Should U.S. aircraft manufacturers continue to aggressively pursue these sales opportunities or should we let them go by default? In our opinion, the industry's ability to be competitive requires that the Government be willing to undertake financing of jet transport sales to foreign airlines, with some participation by the manufacturer, where risks are somewhat greater than is now considered acceptable.

For the above reasons we support the intent of title II "Export Financing Assistance" of the Export Expansion Act of 1965, Senate bill 558.

Very truly yours,

THE BOEING CO.
W. M. ALLEN, *President.*

SEATTLE, WASH.

NORTHWEST AIRLINES, INC.,
OFFICE OF ASSISTANT VICE PRESIDENT,
Washington, D.C., January 27, 1965.

WARREN G. MAGNUSON,
127 Old Senate Office Building,
Washington, D.C.

DEAR SENATOR MAGNUSON: I have read the bill which you have introduced to the 89th Congress concerning further development and expansion of foreign markets for U.S. products and more effective provision for assistance in the financing of certain foreign sales which will promote the national interest.

I would like to tell you that we at Northwest Airlines have a very great interest in the objectives which you are trying to achieve. We wish to congratulate you on the introduction of this bill which should go a long way in increasing our exports. If we can be of any help in connection with this matter, I do hope that you will call upon us.

With warmest personal regards, I am

Sincerely yours,

RONALD MCVICKAR.

The CHAIRMAN. It is on the basis that it will generate air traffic into the so-called international major trunklines of all countries.

You would have these figures. How many countries manufacture airplanes?

Mr. HARR. We believe it is 16, now, sir.

The CHAIRMAN. Sixteen?

Mr. HARR. Ten years ago, it was down to ten. We are up to 16.

The CHAIRMAN. But still the major manufacturers of airplanes are the United States, Great Britain, and France. Is that correct?

Mr. HARR. The major free world countries; yes, sir.

The CHAIRMAN. Is Japan active in the manufacture of airplanes?

Mr. BRADLEY. Yes, sir; they, as you know, made their first effort through building U.S.-design aircraft under license. In the last 3 years, they have devised their own designs and are now making a competitive transport and other aircraft in the smaller designs.

The CHAIRMAN. And the Netherlands builds airplanes, does it not, Belgium, and the Netherlands?

Mr. BRADLEY. Yes, sir.

The CHAIRMAN. And they have done it in reverse. They have licensed some of their planes over here, haven't they?

Mr. BRADLEY. Yes, sir.

The CHAIRMAN. I recall the Belgiums did.

Mr. BRADLEY. We build the F–27, a Volker design.

The CHAIRMAN. Our airplane manufacturers are getting really busy, as I understand it, on the medium- and short-range jets?

Mr. BRADLEY. That is correct. Yes, sir, I think it is significant to note—we haven't touched on it this morning—that this year, 1965, we expect to sell in the four small aircraft manufacturing companies of AIA—expect to sell almost 2,000 aircraft overseas in over 70 different countries.

This is a very significant achievement, and it has just about doubled in the last 5 years, at which time we sold about 1,000 airplanes. I have a list, Mr. Chairman, of the countries that are presently manufacturing aircraft equipment.

The CHAIRMAN. I ask this question for the record. Do the Japanese manufacture their own engines, or do they buy American engines or powerplants from either Great Britain, from us, or France?

Mr. BRADLEY. Yes, sir. They have up until a few years ago. They have built either the Rolls Royce engine, or some of our own engines under license. In the last 3 years, they have designed and developed their own engine capacity.

The CHAIRMAN. Could you put in the record, and you may not want to answer this without doing a little more—I know you have done research—can you estimate the dollar potential of export sales for your industry which could be realized in the future if any financing were available which would be fully competitive with that granted by other countries to their exports?

Suppose we are equally financially competitive, can you do that or answer it now?

Mr. HARR. We would say between now and 1970, a market of approximately $5 billion, and we estimate that about one-third of that would need special financing arrangements of the kind which, we think, would be available under this type of legislation.

The CHAIRMAN. Now when we talk about special financing, aren't we discussing in a broad way long-term financing?

Mr. HARR. Increased terms, certainly.

The CHAIRMAN. Increased terms, this is the real problem.

Mr. HARR. The policy of increased terms is one of the principal items we face simply for lack of resources on the part of the buyer.

The CHAIRMAN. I wish you would also put in the record, in connection with increased terms, you are banking, are you not, upon the management and the efficiency of the operation of these airlines of the people, or the airline of the country that buys the planes?

Mr. HARR. Certainly, to a major extent.

The CHAIRMAN. Would you say that is getting better, or as good as many of the other countries that have long been established in running airlines?

Mr. HARR. It is improving tremendously, sir, but also there are many ways to help. In almost all cases, again, it is hard to generalize through the whole spectrum of countries involved, there are available all kinds of external support in forms of maintenance, piloting, and systems management advise, and so forth. Nobody is allowed to suffer for lack of that kind of outside support.

The CHAIRMAN. When manufacturers sell an airplane to a country, the purchasing nation's people come over. The pilots, or the engineers, spend a great deal of time learning how to fly that aircraft, do they not?

Mr. HARR. That is correct.

The CHAIRMAN. In the United States?

Mr. HARR. In many cases.

The CHAIRMAN. OK. Senator Lausche, any questions?

Senator LAUSCHE. Yes, sir. You are connected with the Aerospace Industries Association of America; is that correct?

Mr. HARR. Yes, sir.

Senator LAUSCHE. I don't know whether the record shows whether or not this program has been recommended by the administration, or not. May I inquire?

The CHAIRMAN. What do you mean—do you mean the White House, or the departments?

Senator LAUSCHE. Well, the White House, the departments, which, if any, of the branches of the administration have recommended the program?

The CHAIRMAN. We haven't asked yet. We are asking them to testify, but I think, generally, it is consistent with the broad program to attack the balance-of-trade deficts. We will ask them to testify, Senator Lausche. They are all going to come up and testify.

Senator LAUSCHE. Have you been initially interested in the adoption of this bill? Have you exerted your efforts to procure the bill's introduction?

Mr. HARR. No, sir.

Senator LAUSCHE. Have you spoken with the Civil Aeronautics Board, or any of the agencies connected with the aircraft, air service industry about the bill?

Mr. HARR. We are in constant contact with certain elements of the executive branch that have to do with——

Senator LAUSCHE. Did you personally do it?

Mr. HARR. No, sir.

Senator LAUSCHE. Were the contacts made with the purpose of persuading the particular agency to give support to the bill?

Mr. HARR. No, sir; absolutely not.

Senator LAUSCHE. Are you familiar with the Export-Import Bank Act as it is now written?

Mr. HARR. I am familiar with it, sir. I don't claim to be an expert.

Senator LAUSCHE. The purpose of the Export-Import Bank is to promote trade of the United States, primarily, so that foreign purchasers can procure credit if they will buy their goods in our country. Is that correct, basically?

Mr. HARR. Basically; yes, sir.

Senator LAUSCHE. Can you point out specifically in what respect the Export-Import Bank Act is now deficient in providing this service you would like to have amended by the bill pending here?

Mr. HARR. Specifically, in terms of some of the items that the proposed bill, S. 558, seeks to amend the Export-Import Bank Act of 1945.

Senator LAUSCHE. How are the present guarantee terms deficient that the Export-Import Bank is able to give guarantees on? Why aren't they adequate? They determine the length of the credit that will be extended.

Mr. HARR. Yes, sir.

Senator LAUSCHE. They determine what interest rate they will be prepared to guarantee.

Mr. HARR. That is true.

Senator LAUSCHE. What do you want done, specifically, in the liberalization of the rights of the Export-Import Bank?

Mr. HARR. Senator Lausche, our support of S. 558 stems from two aims we believe it accomplishes. One is by specifically spelling out in five or six respects——

Senator LAUSCHE. Will you look at title II and point out what you have in mind?

Mr. HARR. The first thing is, sir, the addition of the language——

Senator LAUSCHE. What page are you on of the bill?

Mr. HARR. Page 10, sir.

Senator LAUSCHE. All right.

Mr. HARR. The addition of the language in section 201:

> * * * assure, within its statutory limitations, that the United States is fully and effectively competitive in its financing arrangements with other countries in the development and maintenance of world markets.

We think this is an important expression of intent.

Senator LAUSCHE. What terms can't they now guarantee which you feel they ought to be permitted to guarantee and which you contemplate covering by this bill?

Mr. HARR. Credit risks, for one thing.

Senator LAUSCHE. What are the things which they can't guarantee?

Mr. HARR. Extend the terms of length of time.

Senator LAUSCHE. What is the maximum time now allowable under the Export-Import Bank?

Mr. HARR. I don't know if there is a maximum time.

Senator LAUSCHE. There is no maximum time fixed by the Board.

Mr. HARR. That is correct.

Senator LAUSCHE. So the Board now has the ability if, in its discretion, it is sound, to lengthen the credit terms?

Mr. HARR. I believe that is true.

Senator LAUSCHE. How do you propose in this bill it will affect the discretionary power of the Board?

Mr. HARR. I think it very definitely should affect the discretionary power of the Board, sir, and that is exactly what we are talking about. I have enumerated these powers, by which the proposed bill amends the existing act, in my statement. In addition, I think these provisions are most important in the discretionary power it accords to the Board.

Senator LAUSCHE. The Board, under its discretion, now fixes the time of the credit; is that correct?

Mr. HARR. Yes, sir.

Senator LAUSCHE. There is no limitation upon its discretion?

Mr. HARR. I believe that is true, sir.

Senator LAUSCHE. But you want Congress to pass a law that will compel the Board to abandon its sound discretion and to grant guarantees on time to meet the guarantees given by foreign nations whether those foreign nation guarantees are sound or not sound?

Mr. HARR. No, sir; we do not. As stated earlier, we certainly do not support the proposition that unsound loans should be granted. We suggest that under existing practices there has been an unwillingness to undertake and support sound loan positions for a variety of reasons.

And we point out that with respect to our industry's international problem, and increasingly so in the future, the lesser developed countries come to the forefront as potentional customers, and it will be necessary to extend credit terms under the present practice of the Board if these positions are not to be lost. And we urge the importance of not losing them.

Senator LAUSCHE. Will you give an example of what is the maximum time that they have guaranteed debts on sales of airplanes to foreign countries, the Export-Import Bank?

Mr. HARR. Mr. Bradley says he has a figure.

Mr. BRADLEY. Sir, generally in the past, loans were made on the lifespan of the aircraft which was about 7 years for the aircraft, and loans normally continued about 5 years.

One of the points that I think is pertinent here, sir, is that these new aircraft, for example, the big jets, have a lifespan from 10 to 14 years. The increased costs, along with the increased lifespan, make it essential that we are granted consideration for longer term loans.

Senator LAUSCHE. Now then, under the present law, doesn't the Board of the Export-Import Bank, if it deems it sound, have the discretionary power to lengthen the guaranteed time from 7 years up to 10 or up to 14?

Mr. HARR. We believe it does.

Mr. BRADLEY. It is up to 10.

Senator LAUSCHE. Have you tried to persuade the Board that the span of life as now being 10 to 14, the guarantee ought not to be based on a 7-year period but on a 10- to 14-year period? Have you tried to persuade the Board?

Mr. HARR. Yes; although, sir, I can't give you specifics.

Senator LAUSCHE. What has the Board said with respect to that?

Mr. HARR. The loans have not been granted except on the basis earlier indicated.

Senator DOMINICK. Would the Senator yield?

Senator LAUSCHE. I yield.

Senator DOMINICK. Is it my understanding that you tried to get credit from the Export-Import Bank for the big jets referred to by Mr. Bradley and that the Export-Import Bank wouldn't grant them? Or are we talking about sales of smaller aircraft to the underdeveloped countries?

Mr. HARR. No; we are talking also about big jets, Senator Dominick. As a matter of fact, the two specific cases I gave you, those were big jets that were involved.

Senator DOMINICK. In the Argentine?

Mr. HARR. And Ghana.

Senator DOMINICK. When did this occur?

Mr. HARR. Ghana——

Mr. BRADLEY. The negotiations with Ghana started several years ago.

Senator DOMINICK. I am just talking about the credit terms that you indicate that the Export-Import Bank would not grant. When was this denial made?

Mr. BRADLEY. Probably 2 years ago, sir, in the case of Ghana.

Senator DOMINICK. What about Argentina?

Mr. BRADLEY. That was a progressive endeavor. They started with their smaller jet aircraft, through their medium range, through their long range. It was a progressive development lasting over a period of several years.

Senator DOMINICK. And a progressive denial by the Export-Import Bank of these credit terms?

Mr. BRADLEY. Yes, sir. I think we should state that regardless of who was directly concerned, the Argentine had almost completely all American equipment as recently as 8 years ago. They now, except for a couple of DC–3's, have all foreign equipment.

Senator DOMINICK. That is exactly what I am trying to find out and this is exactly what I am trying to find out why, why do they? Is it quality or is it financing?

Mr. BRADLEY. Since we have a technical superiority which is well known throughout the world, I think we can only conclude that it was financial.

Senator DOMINICK. Excuse me. Go ahead.

Senator LAUSCHE. With respect to Argentina, do you know what time credit has been given to them in the purchase of these planes?

Mr. HARR. I do not know. I don't know whether anyone knows.

Senator LAUSCHE. Am I correct in this pending bill, there is no specific direction of what the terms of the guarantees shall be that the Export-Import Bank Board will approve?

Mr. HARR. That is correct, sir.

Senator LAUSCHE. This bill is intended as a product to have them do what they felt they shouldn't do up until now on time and credit. Is that correct?

Mr. HARR. I do not know, sir.

Senator LAUSCHE. If the bill doesn't specifically say that you shall give a 14-year period of time in which to pay the debt, but merely declares a policy, is it or isn't it supposed to be a product from Congress for it to change its position?

Mr. HARR. Sir, I think there are specific ways in which it liberalizes the authority of the Board.

Senator LAUSCHE. The Board now has the authority to do exactly what you want done, doesn't it?

Mr. HARR. It does as far as credit terms are concerned.

Senator LAUSCHE. But in its judgment, having been directed by the Congress to run the banking institution in a sound way, it refuses to do so; isn't that correct?

Mr. HARR. I presume that is the position of the Board.

Senator LAUSCHE. Therefore, you are now asking the Congress to adopt this bill which will in someway influence the Board to change its policies?

Mr. HARR. To enable it to.

Senator LAUSCHE. To enable it to. It can do so now, can't it?

Mr. HARR. There are several respects in which this bill amends the present Bank Act in an enabling way, we believe, sir. First it is a declaration of policy. Second, it does spell out the consideration of the acceptance of credit risks. Third, it provides that credit terms may be set at less than prevailing commercial levels.

Senator HARTKE (presiding). Isn't that an important fact, at the present time, it is doubtful or questionable whether the Board has that authority? They may have it and they may not?

Mr. HARR. That is correct, sir.

Senator HARTKE. And this spells it out very specifically and says that they can set at less than prevailing commercial rates?

Mr. HARR. That is correct.

Senator HARTKE. If they have that authority at the present time, are they exercising it?

Mr. HARR. I don't believe they are.

Senator HARTKE. In other words, even though they may have the authority, and it could be reasonably interpreted they might have the authority, they have not been exercising it and this spells it out very specifically that they could do so. Isn't that correct?

Mr. HARR. That is correct.

Senator LAUSCHE. Now I go to page 12, what is identified as paragraph 2 by the numeral. This bill sets up an advisory committee. Is that correct?

Mr. HARR. Yes, sir.

Senator LAUSCHE. And the advisory committee is made up primarily of members of the Cabinets of the administration?

Mr. HARR. That is correct.

Senator LAUSCHE. And this advisory committee is invested with the authority to tell the Board how to exercise its judgment in the issuance of guarantees?

Mr. HARR. I don't think it is quite stated that way, Senator Lausche. It is available for consultation and advice at the request of the Bank. Is that not so?

Senator LAUSCHE. It reads:

> The committee shall also establish such guidelines as it may deem advisable to assist the Bank in determining the national interest with respect to any particular category or category of proposals.

Were you familiar with this part of the bill? Did you participate at all in thinking it out and recommending it?

Mr. HARR. Absolutely not. I had nothing to do with it.

Senator LAUSCHE. Now, are you familiar with how the capital structure of the Export-Import Bank is now set up?

Mr. HARR. Not in any great detail, no, sir; I am not.

Senator LAUSCHE. This bill, however, would authorize the Treasury Department to buy $500 million worth of Export-Import Bank bonds to provide the Bank with $500 million in cash to extend its credit operations. Is that right?

Mr. HARR. Yes.

Senator LAUSCHE. Does this mean, then, that we will expand the capital of the Export-Import Bank by a half billion dollars?

Mr. HARR. Senator Lausche, I have absolutely no idea.

Senator LAUSCHE. I am not familiar, but are these $500 million to be used only in the aircraft industry or is it in all industries?

Mr. HARR. All industries.

Senator LAUSCHE. Do you know whether or not the Board or the officers of the Export-Import Bank have said that they can't expand their guarantees because they don't have enough money?

Mr. HARR. No, sir.

Senator LAUSCHE. Do you feel this $500 million should be made available to it?

Mr. HARR. Yes, we support that part of the bill as well, sir. Particularly useful are the credit guarantees.

Senator LAUSCHE. I was interested in your statement that you do not have the finances with which to extend this credit in the aircraft industry itself. Is that right; is that what you say?

Mr. HARR. We extend credit to the fullest possible extent; and we do participate in financing, in a variety of forms. You can hear the nature of those participations in some detail from some of the other manufacturers who will succeed me, Senator Lausche.

Senator LAUSCHE. Which country is your principal competitor in this field?

Mr. HARR. Various ones, but primarily Britain and France.

Senator LAUSCHE. Do you know what the time of the credit is that Britain extends?

Mr. HARR. No; except that it is longer.

Senator LAUSCHE. Longer. And do you know what the time is of France?

Mr. HARR. Sir, we would have no way of knowing those. In each transaction the credit time can vary.

Senator LAUSCHE. I think that is all.

Senator HARTKE. Mr. Dominick?

Senator DOMINICK. Just a couple of questions, Mr. Chairman. Mr. Harr, on page 3 of your statement, you refer several times to the deficiencies in financing by the Government. Is it your opinion that the Government is the only organization that is able to do this type of financing?

Mr. HARR. No, sir; there is, has been, and will be substantial participation from private sources, from both the countries themselves and banks.

Senator DOMINICK. I am not trying to get into a philosophical argument, but what I am asking you is this: Has the aerospace industry or the banks or the combination of the two, tried to set up any kind of

a guarantee fund which would do the very things that you are talking about?

Mr. HARR. No; not specifically, sir.

Senator DOMINICK. Thank you.

That is all, Mr. Chairman.

Senator HARTKE. Mr. Cotton?

Senator COTTON. It wasn't quite clear to me and I wasn't quite satisfied with your answer to Senator Dominick about the Argentine matter. Your conclusion was that because our planes are equal or superior to those of the foreign competitors, the fact Argentina is now buying almost exclusively from your competitors must be because of financing.

Now, you have attempted to sell, I assume, to the Argentine?

Mr. HARR. Yes, sir.

Senator COTTON. And when you attempt to sell to a customer, and the customer resists the sale, doesn't he give you some reasons why he chooses to buy somewhere else?

Mr. HARR. Often he does, and they are often unreliable.

Senator COTTON. In other words, your answer was a good deal like saying, if you are saying, if it isn't tuberculosis it must be cancer. There must be many other factors and it is not quite clear to me that your assumption that it must be the financing that has caused us to lose completely in Argentina wasn't quite borne out. I thought you might give more specific reasons.

Mr. HARR. Mr. Cotton, if I may, let me answer you this way. I think it can be misleading perhaps to focus on the Argentine or any one case in this respect.

Senator COTTON. Only reason I referred to the Argentine is that was the specific question.

Mr. HARR. These are the facts: If there is an attempt to draw an inference which exceeds the facts, we do not wish to do so. There came a time for the reequipment of the Argentine Airline. The United States was approached and a loan was sought from the Export-Import Bank. It was not granted. The reequipment of their airlines was substantially provided by the British and French. Let me say that we have stated in our statement, and I wish to reaffirm it, in view of the subsequent testimony, that the Export-Import Bank has been tremendously valuable and important to the export of our products over the life of the aviation exports. We are primarily saying that for two or three fundamental reasons, such as credit terms extended by our competitors, competing nations, and is the entrance into an era in which the principal markets will be in the less soundly financed base, the lesser developed countries have scarcer assets of foreign exchange and capital. If we are going to be competitive, it will be increasingly essential for more flexible credit to be extended.

Another item which brings us into sharp focus is that although in the large jet transports, for instance, we had a tremendous competitive advantage, merely due to the quality of our product, as we proceed into the lesser developed areas and into medium- and short-range jet aircraft, with both the development and need of the product, we face more directly the formidable competition from some of our competing countries in the product.

Senator COTTON. I was much interested in the observation of the other gentlemen, Mr. Bradley, about your greatly increased sales of small craft in the past year. If this question calls for disclosing information that would be detrimental to you with your competitors, trade secrets, by all means don't answer it, but I wonder if you were free to tell the committee, give us an idea of some of the countries in which your sales have greatly increased over last year?

Mr. BRADLEY. Sir, we have a list of them, and we would be pleased to provide it to the committee. I think, though, I can answer your question by saying that our sales are increasing at such a growing and steady rate that they increase worldwide. First of all, we are increasing the sales in the countries to which we have been selling all along.

Second, we are increasing the number of countries to which we are selling. Three years ago we sold 1,500 of these aircraft, so to speak, in about 50 countries. Last year, or the year before last, we sold 1,600 in 60 countries. This year we expect to sell around 2,000 aircraft to over 70 countries.

Senator COTTON. Is the greater increase in the small and newly emerging countries of Africa, of Asia?

Mr. BRADLEY. I believe I would have to defer to one of the aircraft manufacturers. I don't know the degrees of increase in the specific countries.

Senator COTTON. Would you be willing to file with the committee but not to appear in the record, if you preferred it not to, the information where you are selling the small aircraft?

Mr. BRADLEY. Yes, sir; we have that by country and by type of aircraft. We would be pleased to provide it.

Senator COTTON. Do you object to that appearing in the record?

Mr. HARR. Can we reserve on that?

Senator COTTON. Certainly. What type of small aircraft are you referring to now, or types?

Mr. BRADLEY. The four companies that belong to AIA are Aero Commander, Beech, Cessna, and Piper. They, together, constitute about, I believe, about 95 percent of the small aircraft business.

Senator COTTON. Thank you, and if it in any way is disclosing information detrimental to you, don't file it. But if you want to file it so we may see it and it won't appear in the record, that is fine. If you don't want to, don't file it at all. Thank you.

(The requested information follows:)

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.,
Washington, D.C., March 30, 1965.

Mr. MICHAEL PERTSCHUK,
Professional Staff Member, Senate Commerce Committee,
New Senate Office Building, Washington, D.C.

DEAR MR. PERTSCHUK: I refer to the testimony of March 18, 1965, before the Senate Commerce Committee by the Aerospace Industries Association in support of S. 558 during which several questions were asked by Senators Cotton and Magnuson relative to export statistics of U.S. manufactured light aircraft. Specifically, we were asked to provide detailed shipment of light aircraft to the various foreign countries. (Reference: The U.S. Senate Report of Proceedings, hearings held before Committee on Commerce, March 18, 1965, p. 128, par. 1.)

We have attached our statistical review for calendar 1964 showing country of destination, number of aircraft, and dollar value of this particular category of aircraft which were manufactured in the United States and exported by Aero Commander, Beech, Cessna, and Piper. We have also included the total number

of units and dollar value of utility aircraft exports for these four companies, 1959 through 1964.

When we speak of light aircraft, utility aircraft, or general aviation-type aircraft, we include single engine and twin engine complete aircraft, up to but not exceeding, 20,000 pounds total weight.

If there is any additional information which we may be able to provide, please advise.

Sincerely yours,

JACK T. BRADLEY,
International Director.

AERO COMMANDER, BEECH, CESSNA, PIPER

Utility aircraft export statistics covering years 1959–64, as compiled from confidential "AIA utility aircraft export reporting forms" which calls for a listing of all civil aircraft of 20,000 pounds, empty airframe weight (excluding spare parts)

Year	Units	Value
1959	956	$14,494,256
1960	1,484	27,335,023
1961	1,581	29 530,659
1962	1,468	31,298,679
1963	1,578	35,172,989
1964	1,775	44,118,200

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.,
Washington, D.C., March 26, 1965.

International service memorandum.
To: International Committee, Working Committees, Request Lists.
Subject: Utility aircraft exports, 1964.

Attached are the yearend utility aircraft export figures for 1964. These figures are submitted to us on a cooperative basis by four manufacturers under the statistical category of "Civil Aircraft of 20,000 pounds and under, empty weight," which is not comparable to U.S. Bureau of Census aircraft export figures (FT 410).

During 1964, 1,775 utility aircraft at a value of $44,118,400 were exported in comparison to 1,579 utility aircraft valued at $35,060,600 for 1963.

The attached report shows total units, total value, and countries of destination of utility aircraft exported during the period January to December, 1964.

JACK T. BRADLEY,
International Director.

Exports of utility aircraft by country of destination, January–December 1964—Reported by Aero Commander, Beech, Cessna, and Piper

[Dollar amounts in thousands]

Country	October		November		December		4th quarter		12 months	
	Units	Value	Units	Value	Units	Value	Units	Value	Units	Value
Total	128	$3,533.3	125	$2,887.6	138	$3,255.5	391	$9,676.4	1,775	$44,118.4
Canada	17	345.8	11	164.5	9	111.6	37	621.9	189	3,568.6
Argentina	7	202.9	7	128.5	5	112.9	19	444.3	68	1,862.0
Bolivia									5	86.9
Brazil	4	324.0	4	69.5	5	235.4	13	628.9	100	5,070.1
British Guiana									1	37.3
Chile			3	28.2	2	22.8	5	51.0	22	451.6
Colombia	2	49.4	3	33.6	2	22.5	7	105.5	27	518.0
Ecuador			3	33.1	10	108.5	13	141.6	16	220.9
Guatemala	1	15.9	3	58.5	3	64.3	7	138.7	43	755.3
Honduras	1	12.2	1	8.2			2	20.4	14	183.5
Jamaica									2	26.2
Mexico	6	227.8	2	36.5	9	140.8	17	405.1	96	2,514.0
Paraguay			1	22.8			1	22.8	7	158.2
Peru	2	36.3	1	151.3			3	187.6	7	240.2
Salvador	2	38.3			3	91.5	5	129.8	25	372.3
Venezuela	3	72.5	2	77.9	3	83.6	8	234.0	59	1,673.8
Costa Rica	1	25.3	1	15.2	2	22.8	4	63.3	9	126.3
Nicaragua	7	86.1	1	14.9			8	101.0	27	309.6
Uruguay									15	271.4
West Indies									2	28.4
Dominican Republic	1	56.6					1	56.6	1	56.6
Netherlands Indies					1	145.3	1	145.3	1	145.3
Austria	1	13.1					1	13.1	22	500.5
Belgium	1	6.9					1	6.9	5	45.7
Denmark	3	93.9			3	39.9	6	133.8	22	366.4
France	2	28.3	1	12.3	3	115.0	6	155.6	27	1,210.5
Germany	5	541.0	7	550.7	2	24.4	14	1,116.1	81	3,671.0
Italy					1	331.1	1	331.1	7	549.6

Lichtenstein									1	213.5
Netherlands									2	20.1
Norway									3	37.4
Portugal									2	21.2
Sweden	6	93.9	4	56.6	6	71.4	16	221.9	57	1,118.2
Switzerland	11	220.7	13	326.1	13	379.7	37	926.5	133	3,062.8
United Kingdom	9	202.7	2	29.2	7	149.2	18	381.1	78	2,078.6
Finalnd			3	33.9	2	24.1	5	58.0	10	169.6
Iceland			1	9.9	1	77.1	2	87.0	10	218.6
Ireland			1	13.4			1	13.4	1	13.4
Indonesia									2	34.7
Japan	1	127.6	2	171.0			3	298.6	25	1,076.2
Pakistan									12	278.1
Philippine Republic			2	58.1	1	12.3	3	70.4	19	810.9
Thailand					1	174.9	1	174.9	2	297.1
Iran			1	16.7			1	16.7	2	108.9
Israel			1	9.8			1	9.8	3	33.2
Korea									1	15.8
Lebanon									1	11.4
Malaysia			2	24.2	3	58.6	5	82.8	10	146.2
Vietnam									1	16.4
Australia	8	163.7	14	200.9	23	285.6	45	650.2	183	3,142.4
New Zeland	4	41.4	6	67.2	3	47.2	13	155.8	47	532.3
New Caledonia									2	57.4
Angola			1	19.0			1	19.0	8	217.6
Gabon									6	159.6
Ivory Coast									1	11.6
Kenya	2	14.1	1	22.9	2	19.9	5	56.9	20	315.5
Malagasy Republic	1	14.2					1	14.2	8	164.8
Nigeria	4	100.8	1	12.3	2	40.4	7	153.5	11	269.0
Southern Rhodesia	2	31.5					2	31.5	3	90.5
Somali									3	61.0
South Africa, Republic of	11	268.8	19	410.7	11	242.7	41	922.2	173	3,551.8
Congo, Republic of	1	53.3					1	53.3	3	159.9
Morocco									1	11.1
Dovala	1	11.7					1	11.7	1	11.7
Reunion	1	12.6					1	12.6	1	12.6
MAP									29	547.1

The CHAIRMAN. Senator Pearson?

Senator PEARSON. Mr. Harr, I was in another committee and got here late and I didn't hear all of your testimony, but I take it, in the question and answers, that one of the main points you seek to develop in support of this legislation is that you would be in a better competitive positon, particularly in relation to England and France in the financial credit field if this bill were passed?

Mr. HARR. Yes, sir.

Senator PEARSON. My question is, Have we always or consistently been beaten on a competitive basis case after case after case?

Mr. HARR. Quite the reverse.

Senator PEARSON. Do we often find ourself in a position where our credit terms and so forth are such that we are superior and unable to make the sales under existing law?

Mr. HARR. Senator Pearson, the history of competition between the product made in our country and elsewhere has proved the United States to be the victor in a heavy preponderance of sales.

Senator PEARSON. Why is that so?

Mr. HARR. Historically, we have a superior product. This is not a parochial boast, but a matter of fact. We have been in the business longer, deeper, and better, and the United States is the principal world market for the product which has given us a base largely unavailable to our foreign competitors. In other words, this country is the largest market for aircraft. The trend now, against that history is that for the first time there are formidable opponents in the ring in some of these places in a major way, particularly as we enter the medium, short-range jet business. And all other aircraft. I don't want to understate that. They go down to utility aircraft as well. Rotary-wing aircraft also comprises a large potential.

Senator PEARSON. In our foreign sales under existing policies of the bank, have we been consistently losing because of our credit arrangements or have we won or lost—and that is the question I am trying to get an answer to.

Mr. HARR. I think a general answer would have to be the latter, sir, that we haven't consistently won or lost.

Senator PEARSON. But you feel with the passage of this bill and additional money and modification of policy, which is inferred here, we would be put in a much superior position?

Mr. HARR. As I said to Senator Lausche, Senator Pearson, we do not, in any way, advocate the extension of unsound credit. We are suggesting what is necessary for us to successfully compete, particularly in the future market, which will be larger and somewhat different in context, and that the increasing credit flexibility can still be very sound. Most specifically, we don't see any reason to lose any sales of American aerospace products due to the failure to grant sound credit. That is really our position.

Senator COTTON. Will you yield?

Senator PEARSON. Yes.

Senator COTTON. As this bill is presently written, it would seem to be doing the thing that you very laudibly don't want to do, it would seem to be telling the Board that they must extend credit up to a certain point without scrutinizing its soundness. Do I understand that what you would like, what you feel would be proper would be

a clear-cut reaffirmation by the Congress in giving the Board the flexibility on which there is some question now.

Mr. HARR. Yes, sir; we believe that is done by this bill.

Senator COTTON. Beg pardon?

Mr. HARR. We believe, sir, that is done by this bill, and I don't believe we think this bill encourages unsound granting of unsound credit.

Senator COTTON. Perhaps I haven't studied the bill thoroughly enough, but it would seem to me in its present language that the bill could be and might well be taken as a directive by the Congress that the Board exercise greater latitude and extend longer credit rather than making it plain that they are free to do that, but we are not asking them to do it when, in their judgment, it should not be done.

Mr. HARR. We think that the bill states the latter and that to which we direct ourselves. We feel this is an important increment to the authority and guidance of the bank because, and I think Congressman Adams stated this pretty clearly in his original testimony, the source for the provision of America's products, and in our case, the aerospace product, has been traditionally given to countries under an aid situation, a military assistance situation.

The next step was practically the request for cash; in other words, there was no medium by which to aid this vast spectrum of potential customer situations in which there was not justification for grant in aid, nor was there the capacity to meet standards of criteria laid down and followed by the Export-Import Bank or other lending authorities.

Senator COTTON. It has been suggested that there is some ambiguity in the present law about how far the Board can go. Is that correct?

Mr. HARR. I believe so.

Senator COTTON. And you want a bill which resolves that ambiguity?

Mr. HARR. A bill that gives guidance toward its clarification; yes, sir.

Senator COTTON. If it gives guidance, it means Congress is saying to the Board you shall go further rather than saying to the Board we are making it plain that you may go further, always adhering to your best judgment as to soundness. Now, you would be satisfied if the bill clearly indicated that it was erasing the ambiguity and saying to the Board, you are free to go further according to your best judgment, but not a directive that they go further.

Mr. HARR. Yes, but I think it is important that there be indications of the criteria to be followed.

Senator COTTON. It is pretty difficult for the Congress to enact and freeze into law criteria that would determine whether a particular loan was sound or unsound, isn't it? That is dependent, it seems to me. In the days I was director of a bank, we were dealing with individual borrowers and many elements entered into the risk involved in loans and among those elements were moral risk and previous record and many things like that entered into it.

It is pretty hard for Congress to write in cold print criteria upon which the Board can determine whether a loan is sound or unsound without using its own judgment and instinct. Am I wrong?

Mr. HARR. I agree that you could neither provide nor wholly give guidance to the discretion of that matter. I think it is an important

aid though, in terms of guidance, to specify points of the congressional intent with respect to these loans, with the reservation of the proposition that they be sound.

Senator COTTON. In your opinion, is the language of this bill a pious wish and hope expressed that the Board, in the interests of our foreign export, shall be more lenient or does it direct the Board to be more lenient than it has in the past in its present form?

Mr. HARR. Yes, I believe it liberalizes the guidance of the Board. I am not sure I can give you an answer of conviction on that.

Senator COTTON. Well, on the botton of page 10, it says, 'And it is the further policy of the Congress the bank shall"—not "may," but "shall"—"utilize such funds as may be appropriated pursuant to such action." And it goes on. That is a real directive, isn't it?

Mr. HARR. Yes, but I don't read it as taking the prescription for soundness way from the Bank's discretion.

Senator HARTKE. Let's come back for a moment. We are not dealing here as far as the Bank is concerned with an ordinary commercial bank, are we? This is not a commercial bank which is set up to make a profit.

The basic purpose of the Bank is to facilitate the export of American products, isn't that right?

Mr. HARR. We believe that to be so.

Senator HARTKE. And to do that, you want, I hope, and all of us do, we want to continue to do this on a sound basis?

Mr. HARR. That is correct.

Senator HARTKE. But not in the position where it is a competitor in fact with the regular commercial banks of the country. In other words, if all of these loans could be made through commercial banks, then they should be made there, if they are that type of loan.

But what we are interested in is bringing in the commercial bank and having them participate to the fullest that they are capable of doing so.

Mr. HARR. That is correct.

Senator HARTKE. And then where they reach a point where they feel it is no longer possible, in deference to their own stockholders and their own judgment to continue to go any further, then they turn to another agency and that is this agency, isn't that right?

Mr. HARR. We believe that is one of the principal reasons for its establishment.

Senator HARTKE. In other words, the basic purpose for the Bank itself is not to indulge in unsound loans, but frankly, they are not also to indulge into a competitive situation where they are making a profit. The Bank is not basically a profitmaking organization?

Mr. HARR. That is right.

Senator HARTKE. But they have come up with a yearly profit of about $100 million, which is good from the perspective of sound financial situations; but let's go back for a moment to another situation.

We are also, at the same time, pouring money into underdeveloped countries, through economic aid?

Mr. HARR. We are.

Senator HARTKE. Without discussing the merits or the liabilities of that program, as long as we continue to put aid money into these underdeveloped countries and then in turn fail to recognize our own

commercial attempts to sell to those countries, we are in fact subsidizing the purchase of goods from competitors in other developed nations throughout the world; isn't that right?

Mr. HARR. We believe that has happened, sir; yes.

Senator HARTKE. This bill is an attempt to provide an avenue by which the Bank, looking at the overall national interest, cannot ignore the soundness of a proposal, but can look upon the overall factors; how much money we are granting, including aid—and that is why the Advisory Committee could be of help in this situation, to advise on our activities in this country—where they are going to make the purchase of products overseas, not alone aircraft but other goods, and to provide for them an avenue of considerate judgment of what is in the national interest of the United States considering all of the factors and not just whether it is going to make a profit. Isn't that true?

Mr. HARR. That certainly is very heavily involved in the language of this bill.

Senator COTTON. Mr. Chairman, apparently the chairman's remarks had great significance to my reference to ordinary commercial banking. I think everyone recognizes, I am sure the Board does, and such observations I have had to make about the Board, that they realize that they are not bound by the same criteria that an ordinary commercial bank is bound by.

But, soundness is soundness. Risk is risk, whether it is a commercial bank or whether it is this Export Bank. That was the only point I made and that is the only thing I am saying.

I don't think this board at present is acting in the same way as a commercial bank, otherwise there would be no necessity of their funding at all.

Senator LAUSCHE. Will the Senator yield?

Senator HARTKE. I will be happy to yield.

Senator LAUSCHE. I think the record ought to be made clear that the Export-Import Bank was established with the purpose and expectation that it would be operated on a sound business basis.

We have other multilateral agencies that do business on three-quarters of 1 percent loan, repayable in 40 years. We have special international agencies of which the United States is a member that is supposed to deal easily with the granting of credit, but the Export-Import Bank is not one of them, and it is supposed to run its business soundly, exacting from the guarantees conditions that will give some assurance that the debt will be paid by the creditor and not by the Export-Import Bank, the guarantor.

I think the record ought to be made specifically clear and if one will examine the bill, or the present law, it now has an advisory group.

> There shall be an advisory committee of nine members appointed by the Board of Directors on the recommendations of the President of the Bank, who shall be broadly representative of production, commerce, finance, agriculture, and labor. The advisory committee shall meet one or more times per year, on the call of the President, and shall advise.

So you have an advisory committee in the law, but we are going to set up a new one, to administer this $500 million. Why? What is wrong with the present advisory committee? Why do you want a special one? Is there a special service to be rendered, a special group

to be served that shall be treated differently than the general applicant for guarantee with the Bank?

Senator HARTKE. Let me come back. I think, Senator Lausche, this may be in clarification. We have to be careful not to go off on interpretation of soundness. I think everyone agrees that we favor soundness, but the purpose of the Bank is not to make a profit. Its purpose is to provide an opportunity for exporters to engage in regular commercial interests where the exporters can make a profit and obtain the business in these foreign countries. Is that true?

Mr. HARR. We believe that to be so.

Senator HARTKE. And the fact that they are coming up with an annual profit of $100 million a year gives an indication that they are ignoring to some extent, probably because they are fearful that they do not have the authority to move, and neglecting to some extent at least, the opportunities for making it possible for us to increase our exports abroad.

Mr. HARR. We would not want to criticize the past in that respect, Senator Hartke. Rather, we think this language would insure against that in a very important phase of the future.

Senator HARTKE. I understand you are doing business with them and I am not. So let me leave the inference that it is a criticism of the past and it is a criticism as far as I am concerned.

I think when they start making a profit, pretty soon we can go on back and have them performing the identical functions of a commercial bank and there will be no question about their soundness, but there will also be a question as to whether or not the Argentine situation will be multiplied over and over and over.

Pretty soon we will be doing business with ours and the need for the Bank will no longer be there. That is all I have.

Senator LAUSCHE. Now, I would like to ask another question. It has been said that there is ambiguity in the language of the present statute. Where is it? I will read:

> In connection with and in furtherance of its objects and purposes the Bank is authorized and empowered to do a general banking business except that of circulation, to receive deposits, to purchase discount, rediscount, sell and negotiate, with or without its endorsement or guarantee, and to guarantee notes, drafts, checks, bills of exchange, and acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase, sell, and guarantee securities but not to purchase with its funds any stock in any other corporation.

Now, what is the ambiguity about that language? Doesn't it give the full power to guarantee and to buy notes and bills of exchange, drafts, cable transfers, et cetera? Where is the ambiguity? Will you point it out to me in the existing law?

Mr. HARR. Senator Lausche, I don't think there is any ambiguity as to its banking powers at all. I think that if there is an area of ambiguity, it evolves around the terms of the purposes of the Bank, which have been discussed this morning.

We talk about the criteria involved in the function of the Export-Import Bank, over and above pure banking functions.

Senator LAUSCHE. Now then, we are clear on this, as between yourself and myself, that the Bank has the discretionary authority to do now what you would like them to have them do, but which they refuse to do?

Mr. HARR. In most cases. I think they may be in some doubt as to their discretion in some areas. I think they may be in doubt as to whether or not they are entitled to set credit terms at less than prevailing commercial levels, for instance.

Senator LAUSCHE. That is their interpretation, that they must apply the guarantee on the basis of present general commercial level?

Mr. HARR. I believe so.

Senator LAUSCHE. I call to your attention this language on page 11:

> The terms on which any guarantee, insurance or other financial assistance is provided under this subsection shall be determined by the Board of Directors of the Bank having due regard to the purposes of this subsection and may be set at less than the prevailing commercial levels.

Now, you don't think there is any doubt or any ambiguity in the language of the present statute, but they have not given it an interpretation such as you would like to have them give it?

Mr. HARR. I don't think there is any ambiguity in the language which states their banking powers, Senator Lausche. I think there is ambiguity, perhaps by omission, as to the criteria involved.

Senator LAUSCHE. Now then, I am not thoroughly familiar with what this bill will do, but does this set up a separate fund of $500 million that will be administered apart from the regular capitalization that it now is; that is correct?

Mr. HARR. I believe it does.

Senator LAUSCHE. Why are we doing that? Why are we setting up a separate fund?

Mr. HARR. I don't know.

Senator LAUSCHE. Why are we going to have two funds, one the present capital, and now the new one of $500 million? How are they going to be administered differently?

Mr. HARR. Sir, I am not involved in any way with the construction of this part at all.

Senator LAUSCHE. Does it mean that this fund shall be administered more liberally than the other fund?

Mr. HARR. I think it is just an additional availability of funds, sir.

Senator LAUSCHE. Let's take a look at this from another angle. We are talking about the aircraft industry. It is really the banks that are also involved, aren't they?

Mr. HARR. Potentially.

Senator LAUSCHE. Because when one of our aircraft companies sells a plane to Argentina, it gets a note, payable in 7 years, and it goes to the bank and says to the bank, I want you to buy this note, discount it for me, and the bank says, we will not do it unless you get the Export-Import Bank to guarantee that if Argentina doesn't pay the debt, the bank will.

Is that the procedure?

Mr. HARR. That is a possible procedure.

Senator LAUSCHE. Are the banks wanting this; that is, they don't want to assume the liability, but they want the taxpayers to do it?

Mr. HARR. I don't believe so, sir. I think that a credit guarantee function of the Export-Import Bank is probably the most useful way for it to participate, but I think, along the lines of Senator Hartke's discussion a few moments ago, that it is a function for which the Export-Import Bank was designed and a commercial bank is not designed.

Senator LAUSCHE. Last week, a banker of New York, representing the general banking industry, wanted us to liberalize the Export-Import Bank language to allow the Bank to guarantee debts incurred by Communist countries and one Senator on the Foreign Relations Committee asked, "Why you don't make the loan?"

His answer was, "We will not make it because we could not determine the fiscal position of the Communist country. We could not see what Russia has. They won't divulge it."

But you want the law amended so that the government will guarantee the obligation, which you don't want to incur. Now, except for the Communist aspect of this problem, don't we have the same situation here today in your request that we pass this bill?

Mr. HARR. I don't believe so, sir. I don't believe so. I think the distinctive feature is an agreement which will determine congressional intent as to the exact function of the Export-Import Bank; whether it is distinguishable from that of commercial banks; whether or not it was set up for that purpose.

We do not suggest, nor do we believe, this bill would, in any way, dilute the soundness of bank policies. It might affect the selection of loan and credit opportunities.

Senator LAUSCHE. On that score, didn't the Export-Import Bank says that we don't want this change with respect to our present general operations and if the change is going to be made, it has to be made only with respect to how this $500 million will be guaranteed?

Mr. HARR. I don't know the answer to that.

Senator LAUSCHE. That is a fact, isn't it? The Bank says we refuse to consent to a change. We are operating the Bank soundly now, but if you are going to make a change, it will have to be with regard to this $500 million alone. That is correct, isn't it?

Mr. PERTSCHUK. Yes.

Senator LAUSCHE. That is all I have.

Senator HARTKE. Let's come on back for one moment again to the situation as to who is doing what. As far as the $500 million is concerned, the way it is set up in the bill, it is set up in a special fund and set up for a special fund to go into areas which basically are not presently covered, and the bankers agree they are interested in that.

But, if we stop worshiping the $100 million profit every year, maybe it wouldn't have been necessary for the Congress to have provided such an avenue and we could have been making these loans to these countries, which, frankly, when it comes to the balance sheet, they probably show a situation which is very, very questionable as to the probable outcome.

Isn't that right?

In other words, these underdeveloped countries don't have the same financial stability and repayment items that an ordinary commercial bank would require for this type of loan to an exporter from the United States.

Isn't that true?

Mr. HARR. In some cases, it certainly is.

Senator HARTKE. Otherwise they wouldn't be underdeveloped nations, and we can do one of two things, we can either throw that trade away, forget about it, or we can try to make it possible for the Export-Import Bank to move into this field and make it possible for them to do it on a sound basis and still make it possible for us to do

something about increasing the business for our commercial interests of the United States upon which they will make a profit, and at the same time, make it possible for us, under normal circumstances, and considering the soundness, to help our balance of trade, which in turn will help relieve our balance-of-payments problem.

Mr. HARR. That is correct, that is our position.

Senator HARTKE. So we are not looking for unsoundness, all we are trying to do is facilitate an increase in our export business and although you are at the present time doing a good business, you see a threat to it, as I see it?

Mr. HARR. And a great potential.

Senator HARTKE. And you feel the competition is of such severity that unless you have credit arrangements which are at least more liberal than they are at the present time, that you are going to continue to lose this export business?

Mr. HARR. We will fail to realize a potential; I believe that is the way we would put it.

Senator HARTKE. I believe that is a better term. In other words, that is a potential for increased consumption of all of these goods and we can either share in it or we can fail to share in it.

Mr. HARR. Yes.

Senator HARTKE. As I understand it, this is the thrust of your whole program, that you are not critical of what is going on, but that there are instances in which other countries have been able to move in and obtain the business and provide the credit guarantees and credit terms under which, as in Argentina, we lose the business.

Let me ask you one other thing. If you once lose the business of the original sale, how are the chances of follow-up sales for parts and things of that nature?

Mr. HARR. Of course, it is difficult in any business, Senator Hartke, and very difficult in ours, if you are talking about large aircraft, particularly. An entire system is built around it. When one type of equipment is put into a particular fleet, the maintenance and logistical substructures are built up around that equipment, and capital investment with the initial supplier is substantial.

The utilization of equipment from the initial supplier can be expected. The equipment lasts a long time, an increasing length of time, so that the degree to which one evaluates the potential of a given transaction, in a substantial fleet inventory turnover, one must look beyond the immediate, here, abroad, everywhere.

Senator HARTKE. And the overall effect of it is not just the one-shot sale, but it is a continuing effect, as you have indicated, of the whole fleet, the replacement parts, and the whole operation. You are locked out instead of being locked in?

Mr. HARR. To a substantial degree. There have been many instances where that has been broken, of course.

Senator HARTKE. Any other questions?

Thank you, sir.

Senator DOMINICK. Mr. Chairman, I just want to make one thing clear for the record. Now the acting chairman has referred several times to the Argentina situation as an example of where the credit terms were the reason for the loss of the sale.

I would like to know whether Mr. Harr and Mr. Bradley are so testifying.

Mr. HARR. I don't think we can prove that, sir. We just believe it.

Senator DOMINICK. Thank you.

Senator HARTKE. But this is an inference you have drawn?

Mr. HARR. Yes, sir.

The CHAIRMAN. For the record, Mr. Harr, who belongs to the Aerospace Industry, namewise? Would it be Boeing, Lockheed, North American?

Mr. HARR. Yes, sir, it would be all of the——

The CHAIRMAN. Airframe manufacturers?

Mr. HARR. All of the major primary frame manufacturers, engine manufacturers, component manufacturers, and it would include the traditional airframe manufacturers, some of which you named. It would include the major component manufacturers, major engine manufacturers, guidance manufacturers, as well as light and utility aircraft, and helicopters.

The CHAIRMAN. Thank you.

Senator HARTKE. That is all, sir.

We have John W. Porter, member, Committee on Foreign Trade of the Railway Progress Institute and president of the GRS International.

Good morning, gentlemen. You may proceed in any way you see fit. We are glad to have you with us.

STATEMENT OF JOHN W. PORTER, MEMBER, COMMITTEE ON FOREIGN TRADE, RAILWAY PROGRESS INSTITUTE, AND PRESIDENT, GRS INTERNATIONAL; ACCOMPANIED BY WILLIAM F. HUGGINS, VICE PRESIDENT, WESTINGHOUSE AIR BRAKE DIVISION, WILMERDING, PA.; AND RODNEY A. HARRIS, MANAGER OF SERVICES, RAILWAY PROGRESS INSTITUTE, CHICAGO, ILL.

Mr. PORTER. Mr. Chairman, I am accompanied this morning by Mr. William Huggins, on my right, who is vice president of overseas operations, of the Air Brake Division of the Westinghouse Air Brake Corp.; and by Mr. R. A. Harris, of the staff of the Railway Progress Institute.

I am appearing here representing the committee on foreign trade, dealing with railway equipment and supplying industry, a multimillion-dollar segment of our national economy.

And I also have the honor of serving as a member of the governing board of that association.

Mr. Chairman, for the record, I have filed a list of the members of the Railway Progress Institute as of March 10, 1965, the personnel of the institute's governing board and executive committee, and the membership of its committee on foreign trade.

Perhaps I should explain that the industry I am privileged to represent here today is responsible for the manufacture and sale of railway equipment and supplies which range from $2 to $3 billion a year. This, I am sure you will agree, is a sizable segment of our national economy.

Our industry is truly national, with plants and service facilities in 468 cities located in 45 States. Employment in our industry totals more than a quarter million workers.

This industry has been historically characterized by wide fluctuations of production. Every company in our industry has and is

taking carefully planned steps to correct or offset such feast or famine cycles. Certainly increasing our participation in export trade expansion is one very important element in carrying out such planning. Therefore, we are vitally interested in the forward-looking provisions of S. 558 as needed assistance to make it possible for us to bring our business to more stable levels of production and employment.

May I also explain the export part of our industry's business averaged $142.7 million in the decade 1951–60, with a peak of $240 million in 1958.

About 40 percent of the export volume in the 1950's was represented by the diesel-electric locomotive industry which is geared to high-volume production and whose technical capabilities have been accepted throughout the world. However this segment of our industry now has strong competition from manufacturers in Western Europe, the United Kingdom, and Japan.

About 21 percent of the export volume was represented by railroad passenger and freight cars, much of which business has been financed by the Export-Import Bank. The present volume of such exports is practically nil.

The balance of about 39 percent export volume was in the supply of signal and communication equipment and axles, rail and track equipment, and other specialty items. However, the volume of railway equipment exports in 1963—the last year for which complete figures are available—totaled about $170 million of which more than $100 million, or about 60 percent of the total, were locomotives with freight and passenger cars accounting for $9 million, or only 5 percent of the total.

The 1964 figures, while incomplete, indicate that locomotive exports amounted to approximately $88 million, including an estimated $15 million for locomotives partly manufactured or assembled in foreign countries. Freight and passenger cars were down to 2 orders, totaling less than a mere 300 cars or about $3 million.

While it can generally be concluded that exports in 1963–64 of some product lines including locomotives, signaling and communications equipment, and so forth, held their own over the 1951–60 averages, it is doubtful this can be said for their share of the world market.

Furthermore, there was a positive decline in 1963–64 exports in the case of freight and passenger cars, airbrakes, rail, and track equipment, wheels and axles, and so forth, which indicates an overall industry decline in the U.S. share of the world market.

It is essential, I think, to keep in mind that when we talk about freight cars, for instance, we are not talking exclusively about the business of a few large car builders; we are also talking about a large number of smaller manufacturers who produce the many component parts of a freight car. And this is true of almost all railway equipment and other facilities.

Here, Mr. Chairman, I would like to repeat a statement which I made to then Under Secretary of Commerce Edward Gudeman and some of his associates in 1962 when I was serving as chairman of the RPI Committee on Foreign Trade.

Approximately 100 overseas countries provide the export potential for the U.S. railway supply industry. In each of these countries, almost without exception, the railways are government owned and operated. Equipment purchases by these railways, while made on a highly competitive basis, are frequently af-

fected by political considerations that require the support of the recipient government.

Therefore, it is essential that the U.S. Government work with the industry to insure consideration at the required level and to assure U.S. industry participation.

Now, to the specific provisions of S. 558—we believe that the trade development program set up by title I of the measure now being considered will be of material help to the U.S. manufacturers in the railway supply industry and their subcontractors—particularly to the many smaller supply companies which manufacture components—by expanding their worldwide markets through the introduction of U.S. technical standards—particularly in the emerging countries of the free world.

The organization I represent here especially endorses section 102 of title I. Moreover it stands ready to cooperate to the fullest extent possible to effectuate its provisions.

As an industry, we need, and we have been asking for a long time, for help in the form of:

(1) A continuing and Government-sponsored program of visitations to this country of qualified railroad officers from foreign countries;

(2) Because such visitors would be officers of government-owned railroads, U.S. Government financial help in transporting these visitors from their respective countries to this country is needed. Upon arrival, Railway Progress Institute and its members will plan and implement an educational tour of U.S. manufacturing facilities and railroads;

(3) Coordination between the U.S. Government and the Railway Progress Institute in the selection of such visitors.

In this connection, we ask that expenditures made by U.S. companies to implement this program of visitations be treated as regular operating expense and therefore tax deductible on corporate income taxes.

Title II of S. 558 is a logical extension of the "findings and purpose" of the bill as set forth in section 2.

The competitive handicap of our industry in world trade stems largely from the fact that we are precluded from finalizing contracts without some precommitment to financing. Such contracts could range from relatively small to those in the multimillion bracket. The Export-Import Bank, in the main, categorizes such financing under government-to-government project loans.

Under such a procedure, the U.S. manufacturer who has brought the sale carefully along to the point of closing, is forced to stop at this critical moment and say to his railroad customer: "You must now make application to the Export-Import Bank."

At this juncture, competitors from industrial countries step in with a precommitment loan from their countries. You can immediately see who gets the sale.

It is therefore imperative that precommitment loans from the U.S. Government lending agencies plus a program for Government-insured loans be established as soon as possible to U.S. manufacturers bidding internationally.

Such a program will tend to neutralize the sales advantage enjoyed by many foreign manufacturers in competition with U.S. industry.

This would be especially helpful in increasing U.S. exports to Latin America, the new countries in Africa, and the Middle East areas where the East-West confrontation is most delicate and sensitive.

We believe that the establishment of an Interdepartmental Advisory Committee on National Interest Financing, as set forth in the proposed amendment to the Export-Import Bank Act of 1945—title II, section 201—will be particularly helpful with its appraisal of—

the national interest involved in specific proposals for the extension of financial assistance * * *.

While it has provided valuable and essential services to U.S. exporters, the Export-Import Bank follows commercial banking principles which sometimes are not flexible enough to accommodate national interest financing.

On occasion, this has acted to close capital goods markets to U.S. manufacturers. This is an especially vital point when it is recognized that railroads are an essential element of the national defense interests of every nation.

The Railway Progress Institute has previously participated in export trade expansion meetings with the Department of Commerce, during which specific case histories supporting the foregoing were submitted.

Mr. Chairman, with your permission, we should like to submit five of these cases for the committee's conclusion.

Mr. HARTKE. Without objection, they will be made a part of the record. Insert it at the end of the statement.

Mr. PORTER. In conclusion, may I repeat: For the benefit of our legitimate national interests; for the good of all American industry; for the welfare of more than a quarter million workers in the railway supply industry, we strongly urge the prompt passage of S. 558. In so doing, we congratulate the authors of this measure and those who are sponsoring its passage.

Mr. Chairman, that concludes my statement. I wish to thank you, individually and collectively, for this opportunity to present our views on a bill which we consider to be of great importance, not only to us as manufacturers and exporters, but to our Nation and its future role in the markets of the world.

Thank you.

(The above-mentioned information follows:)

FOREIGN TRADE CASE HISTORY NO. 1

In March 1961, the Export-Import Bank of Washington, in a press release (press release No. 733) announced a new export financing guarantee program * * * "designed to place American exporters on a basis of full equality with their competitors in other countries."

Among the innovations thus announced were the following:

(1) "The Bank, where appropriate, now provides assistance for export of capital goods sold on medium terms by means of guaranteeing a nonrecourse financing period."

The release defines medium-terms transactions as * * * sales involving payment beyond 180 days up to 5 years following delivery (except 7 years in the case of jet aircraft).

(2) "Advance commitments, where appropriate, may be obtained by American sellers of equipment and contractors for services to place them on a competitive bidding position with foreign sellers and contractors."

The release concludes by pointing out that these improvements (and others referred to in the release) in the Bank's facilities and procedures amount to all

out "effort to in bolster and accommodate U.S. foreign trade." The aim is to give all reasonable financial assistance to American exporters, especially small and medium size business concerns, so that they may compete aggressively in world markets.

The following May, a medium-size railway supply company which manufactures component parts for passenger equipment, wrote to the Export-Import Bank advising them of the plans under consideration for some time for the purchase of 500 passenger cars and 40 diesel railway cars by the National Railways of Mexico.

This letter pointed out that the Mexican railroads were asking the various carbuilders to quote on the basis of payment over a 7-year period. "The material of our manufacture involved in this complete transaction would approximate $1,500,000 and naturally, unless financing is afforded the Mexican railway over this 7-year program by us, we will not be on an equal basis with English, German, and Swiss materials inasumch as carbuilders in each of these countries are quoting on these cars."

The letter also pointed out that a proposal offered by one Swiss car builder would provide for the release of the material in five separate groups and that payment would be made 20 percent on each group, and thereafter, the 80-percent balance to be covered by 11 notes; the first one maturing 6 months after the first payment, interest at 7½ percent.

This medium-size supplier then, inquired whether or not the Export-Import Bank would:

(*a*) Guarantee this type of a loan completely so that a local bank would be willing to discount their notes.

(*b*) Insure such a transaction against political and financial changes.

(*c*) Guarantee the total amount on the basis of normal participation by the Export-Import Bank of 85 percent and 15-percent supplier participation.

The following week this railway supplier was advised by the Eximbank, in part, as follows:

"The complexity of the rehabilitation of the railways in Mexico which involves a close coordinating effort on the part of various Mexican agencies and the need for this Bank to have a clear understanding of the rehabilitation effort. This has resulted in an approach under which the Mexican authorities contact this Bank directly about that part of the rehabilitation program which they would like to see financed by this Bank. Because of this, the Bank is not in a position to consider direct application by exporters, nor is this Bank in a position to extend political or comprehensive guarantees.

"We trust that the above clarifies this Bank's position and the reasons why we cannot encourage the kind of application as outlined in your letter * * * it should be pointed out that in cases where equipment sales are financed under this Bank's exporter credit procedure such financing does not involve a guarantee for the total amount of the transaction by this Bank."

NOTE.—Inasmuch as the terms of purchase are demanded of the supplier as part and parcel of his bid and must be included before this bid will be considered, it is quite impractical for the supplier to ask the purchaser to arrange his own financing by requesting a project loan.

FOREIGN TRADE CASE HISTORY NO. 2

RÉSUMÉ OF SIGNALING PROJECTS IN EGYPT, LACK OF FINANCING FROM U.S. GOVERNMENT AGENCIES

Our records indicate that since 1957 there has been no financing from U.S. Government sources for signaling projects in Egypt.

To our knowledge, there have been five major signaling projects since 1956 as follows:

1. Centralized traffic control, Assuit to Sohag.
2. Electric signaling, Cairo to Qaluib.
3. Electric signaling, Alexandria to Sidi Gaber.
4. Centralized traffic control, Sohag-Luxor-Aswan.
5. Interlocking, Cairo-Giza line.

The disposition of each of the above is as follows:

1. U.S. manufacturer declined to tender on this project because the specifications involved field installation which the manufacturer was not in a position to undertake at that time. For the past 4 years, this manufacturer has been fully prepared to perform such installation.

2. Because of lack of time to complete a proposal before the opening date of March 1, 1961, it was impossible for U.S. manufacturer to make an offer, although the company did write the Egyptian railways offering to make a comprehensive study of the entire project and suggested that the bid opening be postponed until such study was complete.

3. U.S. manufacturer quoted for this project early in 1961, but was high.

4. Inasmuch as item 1 was awarded the Siemens Halske Co. of Germany, the Egyptian Government has been negotiating with the same company for item 4 which, in fact, was an extension of item 1. The position of this has not been finally determined.

5. U.S. manufacturer is presently preparing a quotation for this project. The Egyptian railways include the following in their specifications:

"Method of payment is required to be proposed by the contractor, it must include long terms of payment, the conditions of which will be taken into consideration when comparing offers."

The question of U.S. Government financing first came up respect to the Assuit-Sohag project.

In January of 1957, the ICA was suggested to the railways as a possible source of financing, but it was understood that Dr. Mustafa Khalil stated that the United States was exerting undue political pressure on Egypt and that no economic aid could be accepted because of the political strings attached. This was shortly after the Suez crisis.

Financing also came up on the Cairo-Qaluib project. In February of 1960, U.S. manufacturer was advised that the German companies were offering 10-year credits, and it was suggested that the U.S. company might do the same. The company approached the Eximbank at this time, but was advised that exporter credits in excess of 3 years were impossible. Eximbank stated they might consider "a project loan to the railways." Obviously, this was the wrong approach as the Egyptian railways could not be expected to go to the Eximbank for the loan. The financing had to be stated and was the responsibility of the supplier.

During preparation of the Alexandria-Sidi Gaber project, U.S. manufacturer again approached the Eximbank and DLF (April 1961) and was advised that the Egyptian railways had not approached either of these agencies for loans. There was, also, not much encouragement with respect to exporter credits for either the Alexandria-Sidi Gaber project of the Sohag-Aswan project. Again, the U.S. Government agencies were not willing to enter financing with the supplier, rather insisting only on a project loan basis from the customer.

It is this point that is important, as in world bidding, the financing must be the responsibility of the supplier. One cannot expect the customer to request a government-to-government loan which involves a buy American tag when he is endeavoring to obtain world bidding.

In summary, in Egypt, where there is a definite market in signaling, as evidenced by the projects above, medium—long-term financing would be a definite help to U.S. firms in competing with German and Japanese firms. There has been, however, a complete lack of enthusiasm on the part of U.S. Government financing agencies in this regard.

Foreign Trade Case History No. 4

SUDAN RAILWAYS, 1962

Purchased 15 English Electric C–C 1850/1700-horsepower diesel-electric locomotives.

At least one U.S. offering was competitive or better, but an English consultant was involved—and Sudan secured Kuwait money for the purchase. This money might just as well have been used to buy U.S.-built locomotives.

U.S. Embassy tried to convince railways to apply for a loan but again customer found it easier to follow a course previously established and buy British. If Export-Import Bank had been willing to commit themselves in advance to a U.S. builder (prior to formal application by customer) this job might have been saved.

Note.—The Sudan Railways have to date purchased 65 English and 15 Belgian locomotives.

Foreign Trade Case History No. 10

The Government of Pakistan, Ministry of Communications (Railway Division) opened their tender No. PRS–57/WAG/5/TDR in December 1957 covering 227 BR-type flatcars, 50 BOC-type open-top cars and 40 BO-type open-top cars.

The Government of Pakistan was using an ICA grant-in-aid for this procurement and, therefore, U.S. dollars were available. A U.S. manufacturer's proposal on the 227 BR-type flatcars was presented through the American Railway Car Export Association. A tabulation of bids indicates that the U.S. price was the highest quoted. This inquiry was subject to worldwide bidding, even though the funds were furnished as a grant-in-aid by ICA. The order for these cars was placed with Cantieri Riuniti Dell Adristice of Monfalcone, Italy, at the equivalent of $6,848 per car f.o.b. Trieste, or roughly 44 percent of the U.S. price.

In considering the discrepancy pricewise in this case history, the following should be borne in mind:

1. *Standards and specifications.*—The railway specifications against which the U.S. carbuilder had to compete were based on obsolete European designs, and the specification requirements were on the basis of European standard carbuilding production practices. Had the invitations required or permitted the use of American carbuilding production practices and U.S. specifications conforming with the customer's dimensional and operational requirements, the American cost would have been reduced considerably.

2. *Subsidies.*—In this particular instance, we were initially informed that the Italian Government granted an export subsidy to their manufacturer, which we understood averaged about 28 percent. However, when we endeavored to recheck this in Washington, we were unable to do so because the file had disappeared.

3. *Taxes.*—The American price quoted on these cars included as an element of cost U.S. income taxes, which represented approximately 22 percent of the quoted price.

In summary, had the American carbuilder benefited from the advantages outlined in the three items above, the price would have been competitive.

Foreign Trade Case History No. 11

The Argentine railways, previously owned and operated by British interests, were taken over by the Argentine Government in the late 1940's. The handwriting had been on the wall for at least 15 years; therefore, the British had not performed the maintenance and renewal of rolling stock necessary for efficient operation. Following the acquisition, Argentine authorities used the railways as a political plum, loading them up with unnecessary personnel and continuing to ignore the normal maintenance requirements and rolling stock replacements.

Under a directive issued in the form of a Presidential decree, dated May 10, 1961, Ing. A. Acevedo—at that time the Minister of Public Works and Services—was given the authority to completely rehabilitate the Argentine railways.

The U.S. carbuilders had been aware of the deplorable situation with regard to rolling stock and had been aggressively active in Argentina for many years. One U.S. manufacturer sent teams of top-level men to the Argentine in order to assist them in their time of need. These teams included the heads of manufacturing, engineering, marketing, and legal departments. This company was prepared to furnish a pilot lot of cars and to follow up with an investment in Argentine industry which would permit the eventual production of railway freight cars complying with A.A.R. standards by a jointly owned Argentine firm. This U.S. company conservatively estimates that, to date, it has spent in excess of $150,000 on the Argentine project.

After U.S. manufacturers had done considerable spadework, the A. V. Roe Co. of Canada sent representatives to Argentine to develop the possibilities of supplying railways cars. The Canadian Ambassador to Argentina assisted materially by arranging appointments with top government and railway officials. This activity resulted in Ing. Acevedo's visiting Ottawa and initiating a potential loan for the purchase of railroad equipment. During this trip, he visited the United States and made informal approaches to the Export-Import Bank for this project.

It should be borne in mind that U.S. industry was far in advance of the Canadian interests in overall studies and approach. However, financing was not forthcoming from a U.S. source, whereas the Canadian Government agreed to loan Argentina $35 million for the purchase of freight cars. The Canadian loan was to cover a total value of 2,850 cars and was to be financed for a 15-year period, including a 3-year moratorium, with interest at the rate of 6 percent per annum. After waiting a reasonable time for the U.S. interests to arrange the necessary financing—in which they were unsuccessful—the Argentines acepted the Canadian financing and placed orders with three Canadian firms for the above-mentioned 2,850 cars.

At the present time, the Canadian awards have either been canceled or are being held in abeyance due to the economic situation presently existing in Argentina coupled with the domestic production pleas of local Argentine industry.

It is important to realize that U.S. industry was leading the field and actually offered the best solution to the railway problem. However, it was hampered by the lack of financing and in reality lost its position to Canadian industry for this reason.

The situation, as of this wrting, is still salvable provided that the Export-Import Bank or another U.S. Government lending agency authorizes the funds necessary to permit purchase of railway rolling stock in the United States. Otherwise, the Argentine railway market may be lost by U.S. industry to foreign competition.

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Senator HARTKE. Thank you, sir.

Do either of you other gentlemen have any statements to make at this time? Senator Neuberger?

Senator NEUBERGER. I was interested on page 7 of your testimony about the middle of the page, "on occasion this has acted to close capital goods markets to U.S. manufacturers." Could you enlarge upon that?

Mr. PORTER. In the case of Latin America, for example, which market, up until the end of World War II was predominantly British and French, because the railroads in Brazil and Argentina at that time were owned by British or French interests, purchases naturally came from those countries. After the war, when the Argentine and Brazilian railroads became nationalized, the U.S. manufacturers had the great opportunity to capitalize on those markets.

They did so, successfully through various Export-Import Bank loans on a government to government basis. Since then, however, there have been other projects available in both of those countries for which U.S. financing was not available and——

Senator NEUBERGER. Just a minute. Was that partly because of concern about the political instability there?

Mr. PORTER. Well, I don't know whether that was the pertinent point, but I imagine it was because the Bank considered themselves extended as far as they could go in those countries.

Nevertheless, both countries do purchase material and did in fact purchase material from Europe. This also applies to Mexico. There was a case in Mexico where the Export-Import Bank wouldn't give the precommitment for financing, and this is one of the case histories which we have submitted. A Swiss firm with Swiss banking facilities did offer financing and did receive the order. Now, I can't imagine that the Swiss bankers are not conservative in financial capabilities.

Senator NEUBERGER. I am glad you support our bill and want us to be competitive, but I am also interested in all of your testimony and the material should be submitted.

I didn't realize that we competed so much in supplying railway equipment and cars with Japan and Germany and Britain. Do we ship a great number of locomotives? I am interested because they are always telling me in the Pacific Northwest we never have enough railway cars out there.

[1] Indicates member of executive committee.

Mr. PORTER. I think there have been a lot of exports of American railway equipment to various parts of the world and we do and are competing against Japanese, British, French, and German competitors.

And it must be realized that these manufacturers from Germany, France, Britain, and Japan, they weren't capable of getting into the international field in these markets until toward the end of the late 1950's.

Senator NEUBERGER. Do we build these locomotives in the United States and then ship them over there?

Mr. PORTER. Yes, Senator.

Senator NEUBERGER. Thank you.

Senator HARTKE. Senator Dominick?

Senator DOMINICK. Mr. Chairman, I would like to ask Mr. Porter whether or not the entire world market in railroad supplies and equipment has been going downhill?

Mr. PORTER. Definitely not, sir.

Senator DOMINICK. Good; glad to hear it.

Mr. PORTER. The world market for the equipment is on the increase and I have stated that the U.S. share of that market has been on a decrease.

Senator DOMINICK. That is the point I wanted to find out. The world market has been on the increase; our share of it has been on the decrease. Is this in terms of dollars as well as percentages?

Mr. PORTER. The actual statistical information on numbers or dollars, naturally it is very difficult to ascertain, and it is very difficult to translate foreign currencies, for example, Japanese currency, into dollars and compare them because it is on a per-unit basis.

But the fact remains that the railroads in the world have been making considerable progress in the last several years and the British, French, and Italian and Japanese manufacturers have been getting a share of that market, which up until the end of the 1950's, they weren't enjoying.

Senator DOMINICK. Now, could you say as to whether the reason for our decline is because of inadequate financing terms or because of increased competition on a quality and need basis?

Mr. PORTER. I don't think it is because of the quality, Senator, because the American standards throughout the world have been accepted as excellent. The diesel-electric locomotive question is a case in point.

Senator DOMINICK. What about railroad cars?

Mr. PORTER. The railroad cars, you take Argentina, for example; I hate bringing the name Argentina up again.

Senator DOMINICK. We seem to be having a tough time there.

Mr. PORTER. You must understand that the Argentine economy can't be improved because they are lacking in their ability to transport their agriculture products to the ports and to export them. So I would say the Argentine railway is a perfect example of a customer that really needs this equipment.

Senator DOMINICK. The question still is, are we not selling it to the Argentine or anyone else because of competition on quality and the need, particularly need of country, or is it simply because of financing?

Mr. PORTER. I think the question right now is a question of financing.

Senator DOMINICK. You think it is all financial?

Mr. PORTER. Yes, sir.

Senator DOMINICK. Now, in what way would this bill improve the financial situation as far as sales are concerned?

Mr. PORTER. Well, there are two points: the first point, and this is the strong point that I think I made in my statement, I think it is essential, specifically in the capital goods field, for the exporter to have a precommitment on his financing possibilities before he tries to make the sale.

Senator DOMINICK. Precommitment.

Mr. PORTER. Yes, sir.

Senator DOMINICK. It is my understanding this has been put into effect by the Bank.

Mr. PORTER. I would like to be advised about that.

Senator DOMINICK. Didn't they issue such a ruling on March 1961? As a matter of fact, in March 1961, on your foreign trade case history No. 1, you say that they did so announce it?

Mr. PORTER. The point is, I don't think it has been implemented. If it has, it has been on a personal basis and not on an official basis.

Senator DOMINICK. They announced officially that this was what they were going to do. Now your contention is that they haven't done it, is that right?

Mr. PORTER. Yes, I can give you another example, if you like.

Senator DOMINICK. I will be delighted.

Mr. PORTER. In the case of a Mexican possibility, my own company, 18 months ago, wanted a precommitment on financing through Washington, through a commercial bank, and the Export-Import Bank. This was not obtainable because, from the Export-Import Bank's viewpoint, the Mexican National Railway was a traditional customer of the Bank's and they preferred the loan to be applied for direct from the Mexican National Railways.

Now, look at it from my company's viewpoint, although I am here representing an industry, the individual who brought the sale along should have the opportunity to close it.

Senator DOMINICK. I will go along with that.

Mr. PORTER. If you can't get any precommitment on financing, and then it comes to government-to-government loan, the thing goes out for bidding throughout the entire United States.

Now that might not be a bad thing from the customer's viewpoint, but the company who has to put a lot of money into creating it, and creating the project, he is at a disadvantage, because he has already spent a lot of money in creating the sale.

Senator DOMINICK. Sir, do you feel that this particular bill, then, will provide advance loan commitments better than what you already have?

Mr. PORTER. The bill indicates that they would ask for the Export-Import Bank to give greater flexibility in the precommitment project loans.

Senator DOMINICK. Let me get the record straight. When you talk about a precommitment or an advance loan commitment, in that advance, do you expect or not expect the Bank to have a pretty clear idea of what the terms are going to be?

Mr. PORTER. Why, yes, sir, because the company who is going to make the sale has to know what the terms are going to be.

Senator DOMINICK. Suppose you are going to be making a sale, we will say, to the government of Israel, just to take an example, and you are going over there on behalf of your company and because you know that the government of Israel is interested in $20 million worth of railroad equipment.

Now, do you go to the Export-Import Bank now and say, "We are going to go over there and negotiate a sale on the following terms; so many years, so much interest, so on and so forth, and will you give us a commitment?"

Mr. PORTER. The answer is "No," at that point. I think you try to find out exactly what the terms from the Bank would be to that particular country. You have to know what the Bank is prepared to do before you get down to say what you want.

Senator DOMINICK. You go to the bank in that particular situation and say, "We want to sell $40 million worth of goods to Israel, what will you give us by way of loan terms?"

Mr. PORTER. Correct.

Senator DOMINICK. Or credit guarantee terms.

Mr. PORTER. Yes, sir.

Senator DOMINICK. Once you have that, don't you have an advance commitment?

Mr. PORTER. Of course.

Senator DOMINICK. Are you saying they won't give you that?

Mr. PORTER. I personally have never had it.

Senator DOMINICK. This is what I wanted to find out. This is what I am trying to get the record to show.

Mr. PORTER. I am sure some companies maybe have, but I have never been.

Senator DOMINICK. You have been to them and asked for commitment on this——

Mr. PORTER. My company did.

Senator DOMINICK. That is what I mean. Okay, thank you.

Senator HARTKE. Let's come back to the Mexican thing. They wanted a project loan. They indicated it should be handled on a project basis, and they specifically said in their report on the Mexican situation, that because of this, the Bank is not in a position to consider direct applications by exporters; isn't that right, and because this was an application by an exporter, they wouldn't approve?

Therefore, this meant you were denied the opportunity of having this loan extended on your behalf?

Mr. PORTER. I can't speak for the Bank, Mr. Chairman, but I am sure that the point here was that the Mexican National Railway was a traditional customer of the Bank and on project loans, they preferred the application be made direct by the purchaser.

Senator HARTKE. I am not trying to put words in your mouth as to what the Bank said, but I am saying that what the Bank said was—and that is what I was reading—is that because of the complexity and the rehabilitation of railroads in Mexico, which involves a close coordinating effort on the part of the various Mexican agencies there is a need for this Bank (referring to the Export-Import Bank) to have a clear understanding of rehabilitation efforts. In other words, this

is the whole sum and substance of what we call propect loans. This has resulted in an approach under which the Mexican authorities contact this Bank directly, or ask for a project loan, about that part of the rehabilitation program which they would like to have financed by this Bank. In other words, they were asking for the Mexicans to come to them and make the application on a project basis, rather than the exporter doing all of the legwork and all of the extra efforts. Then they come on with the portion I read before.

Because of this, the Bank is not in a position to consider direct application by the exporters, nor is this Bank in a position to extend political or comprehensive guarantees.

The net result is, who got the business?

Mr. PORTER. In this particular case? I think that was a project. I am not sure, but I think that went to Switzerland. It went to Switzerland.

Senator HARTKE. The point is we didn't get it, did we?

Mr. PORTER. No, sir.

Senator HARTKE. This bill covers both of these two points, and this is a real case in point. No. 1, it does provide that the exporter could make the application and provide for that under the new provisions, and, also, it deals with the same problem of the political and comprehensive guarantees which are necessary in those fine-line cases. And if we are going to do business with these other countries, that have political systems, and I am not talking about the Communist countries, I am talking about those who are allied with us, if we are going to do business with these countries, and going to have this business at all, not only preserve but to share in the potential for the future, we are going to have to get with it, so to speak, and be in a competitive position, not only on quality, but on financing. Isn't that true?

Mr. PORTER. Correct.

Senator HARTKE. And this is the purpose of the bill, and if corrections to the bill are required, that is one thing, but there is no question that there is a need for the correction of the present system of financing. I think that cannot be denied.

Mr. PORTER. If I might say, I doubt very much whether you would find the Germans or the French or the British or Dutch going to an international marketing effort and their marketing people not having the ability to have precommitment of loans. The most difficult and practically the most impossible thing is to sell to a man who doesn't have credit.

Senator HARTKE. And if you could go to commercial banks and obtain this credit, you wouldn't even start going anyplace else.

Mr. PORTER. No, sir.

Senator HARTKE. I think this defines the problem quite well and I believe this is what the bill seeks to accomplish without being critical, necessarily, of past performance. Part of this is a legislative failure to give the authority to do what is necessary for a precommitment.

Mr. PORTER. Yes, sir.

Senator DOMINICK. Will the chairman yield? I am still concerned with Mexico. The portion in your case history that you cite has an incomplete sentence in sentence No. 1, anyhow, but if you put sentence 1 and 2 together, what it says is that the bank has previously been contacted in similar situations where the Mexicans were

trying to rehabilitate their railroad, asking for a project loan, that this was their customary way of doing business. Is that accurate?

Mr. PORTER. Yes.

Senator DOMINICK. Well then, if this is the way that the Mexican Government had been doing it in the past, was there a change in policy on behalf of the Government of which the Bank was unaware—or what happened in the breakdown of communications?

Mr. PORTER. You mean the Mexican Government?

Senator DOMINICK. That is what this letter says. I don't have any knowledge of it at all. All I am doing——

Mr. PORTER. I don't know whether the Mexican Government changed its policy, but I imagine the Mexicans, if they wanted a product and the manufacturer had sold the product, the Mexican—the point here is that the Mexicans obviously wanted to buy, and if they wanted to buy they are going to buy somewhere, and they did buy, they bought it from Switzerland.

Senator DOMINICK. Mr. Porter, I am not arguing with you and I am not trying to cross-examine you or anything else, I am trying to get some information. This letter, on page 2, in the first and second sentence, indicates to me, and I am reading it, that the Bank on previous occasions had been approached by the Mexican authorities for a project loan. You indicate to me that in this case this wasn't done. I want to know whether the Bank didn't know about the change in policy or whether there was a change in policy?

Mr. PORTER. I can't answer that.

Senator DOMINICK. You don't know?

Mr. PORTER. No, sir.

Any further questions? Senator Dominick?

Senator DOMINICK. No.

Senator HARTKE. Thank you for appearing, and we appreciate your testimony today.

STATEMENT OF MICHAEL G. NEUBURGER, VICE PRESIDENT OF EXPORT SALES, BEECH AIRCRAFT CORP., WICHITA, KANS.

Mr. NEUBURGER. I am glad to meet you, anyhow.

Senator HARTKE. I want to welcome you, anyway, and you may proceed as you see fit.

Senator DOMINICK. Mr. Chairman, I am going to have to leave, but I just want to welcome Mr. Neuberger to the committee and to the testimony. I have been a longtime admirer of the products of his company.

Mr. NEUBURGER. Thank you, Mr. Dominick.

Senator DOMINICK. I am not going to be able to stay, unfortunately, to hear his testimony, but I will read it.

Mr. NEUBURGER. Thank you, Senator.

Mr. Chairman and members of the committee, I am Michael G. Neuburger. I am vice president of Export Sales of Beech Aircraft Corp., Wichita, Kans. My company manufactures commercial airplanes and aerospace products. The scope of our production ranges from single engine and twin engine utility and business airplanes to subsonic and supersonic missile targets and to systems, which form part of the U.S. space effort. Beech Aircraft Corp. has four manufacturing

plants in Kansas and an aerospace research and development and engineering facility at Boulder, Colo. A subsidiary corporation at Zurich, Switzerland, serves as our base point for operations in Europe.

About half of our activities are commercial production; the other half being work under prime contracts to the U.S. Government and as a subcontractor on U.S. major weapons systems.

For the last 20 years our company has been engaged in an organized effort to develop international markets. We have in existence a worldwide service and sales organization serving some 70 countries in the free world through over 100 sales outlets.

While we have had license agreements in a few countries and joint engineering arrangements with foreign manufacturers, the bulk of our international business consists of exports or products built in our factories in the United States. Our export business has seen a steady growth over the years. It reached in 1964 a total volume of about $21 million. Our export business in 1964 amounted to 31 percent of our commercial production.

International business thus provides jobs for many people in our company, and in our engineering, sales and service organizations. The export effort of our company is closely linked to the stability of employment and the overall business success of our company.

We have sold aerospace products in certain friendly foreign countries, but 90 percent of our exports are made up of our commercial line of airplanes. While we classify them as commercial, they are primarily light transports and utility airplanes and are being purchased in foreign countries by users in the private sector and in the public sector. The sales of these two classifications of purchasers are about evenly divided. The importance of our sales to the public sector in foreign countries will be referred to later in this statement when we specifically refer to export financing.

About half of our export volume goes to developed, industrialized nations; the other half is sold in the less developed countries.

The airplanes we sell serve many diversified functions. We have 10 single engine and twin engine models in production which range from the 4-place fixed-gear Beechcraft Musketeer to the 6- to 11-place pressurized turboprop transport—the Beechcraft King Air. The 10 models differ in performance, in load capacity, in ability to use unimproved fields and in their adaptability to utility type operations.

While in the United States and in the few highly developed countries the airplanes we build primarily serve as transportation for business people in every phase of industry and commerce, in most foreign countries and especially in the less developed areas, our airplanes cover a much wider scope of activities: they serve as scheduled airliners, providing inexpensive transportation for lines of the interior and to communities inaccessible to everything except a light airplane; they serve as nonscheduled and air taxi vehicles.

They are used as ambulances or to bring doctors to remote areas. They are being equipped with photographic and electronic installations for surveying and mapping and for the exploration of natural resources. Civil aeronautics authorities of foreign governments use our airplanes to maintain their airways communications facilities. The emerging nations clearly are the ones who need our airplanes the most. They must develop communications and transportation, for

without transportation they cannot develop their economies. They cannot extract their natural resources and provide access to markets. They must maintain internal security.

People and goods must be moved, and communications are needed to rise above subsistence levels. In the majority of the developing countries time and nature do not permit the building of surface communications which, in the long industrialized nations, provide many of the services. In the emerging countries only the airplane makes these services possible.

The developing countries also need the skills which in the course of our business operations we have come to provide for their people. To service, repair, and maintain Beechcraft airplanes, technical facilities had to be established in many countries.

We provide training to native technicians in airframe, engine, and electronics and in the systems with which our airplanes are equipped. We provide guidance in business management to native organizations which serve as our distribution points abroad.

All these are business activities which clearly are in the U.S. national interest. I am referring here to an article of which I am the author which appeared in the March 1964 issue of Flight magazine. The article is entitled "General Aviation—An Instrument of Foreign Relations." A good case can be made for this contention. Our volume of export sales contributes to the U.S. balance of payments. This is obvious, and because we aim at a steady annual growth in our exports of at least 10 percent each year, we have a well-substantiated claim to exerting a long-range, continually increasing effect on the U.S. national economy. The sale of airplanes is a continuing foothold for the United States as it generates spare parts sales and technical assistance and services over the many years in which an airplane is in operation. We penetrate international markets and hold them against the competition from aircraft industries of other nations. The United States has supplied nearly 90 percent of the free world requirements in the utility class. This significant contribution to the U.S. international trade has been accomplished by our company and four of its fellow manufacturers in the industry.

Yet, to do this effectively and to realize the potential which indeed is unlimited, we need export financing. Especially the emerging nations with their demands on capital and on foreign exchange to develop their economies cannot pay cash for the airplanes they need, or if they do pay cash because the financing arrangements cannot be made, they do so because their need for the airplane outweighs the adverse effect on their exchange resources at the time.

This is the reason why my company is vitally interested in the expanded guarantee authority provided under title II of the bill which Senator Magnuson has introduced in the Senate.

Export financing facilities are available in the United States. They are now provided by the Export-Import Bank and insurance is provided through the Foreign Credit Insurance Association. Credit is, at times, available also through the commercial banks of this country, and to some degree through our own financing subsidiary. Our company, in fact, during the past 2 years has sold 19 percent of its export business on deferred payment terms, mostly medium or short term. Most of this was backed by guarantees of the Export-Import Bank or

insured under FCIA. We have thus been able to obtain financing for many transactions when they responded to sound and customary banking requirements with respect to commercial risks; and where the customer, be he private or public, was able to provide such guarantees as are required under customary banking procedures; also where political risks in each transaction were compatible with the criteria which the guarantor institutions were applying at the particular time to the country involved.

All this has been helpful. In recent years we have seen a gradual, if not spectacular, improvement in the willingness of the lending institutions to accept general aviation projects.

However, to realize the full potential of the markets in the less developed countries, and to obtain for the United States the economic and transcendent benefits of general aviation exports, it would be of great help to have available to the lending institutions a rediscount facility which can purchase obligations which are in the national interest but are not supported in accordance with the standard banking criteria which now generally apply.

There are substantial sales available to us amounting to many millions of dollars, for which we are seeking financing. We estimate that our annual sales volume would grow each year an additional 20 percent if such a supplemental fund were available such as S. 558 would provide.

The additional lending and guarantee authority could raise the credit limits which are now being applied to individual countries, and which inject a factor of uncertainty into sales negotiations. We need to be in a position to have advance commitments for export financing in order to participate effectively in public bids. Many foreign governments for their own purchases are prevented by fiscal regulations to furnish the type of guarantee now acceptable to our lending institutions. The additional guarantee authority would provide relief in that respect. We expect it would extend the time limits on medium term credit. All these are benefits which are now available to our competitors in other major industrialized nations.

It is with the conviction that the U.S. external trade can be expanded far beyond its present levels for all the attendant benefits to the economy of our country, and to the prestige of America, and toward meeting many foreign policy objectives of the United States, that we support the bill which this committee is now examining.

Senator HARTKE. Thank you, Mr. Neuburger.

Your article on general aviation as an instrument of foreign relations will be included by reference and made a part of the permanent committee files so we will have that available to us.

Senator NEUBERGER. No questions.

Senator HARTKE. I have some questions here that have been submitted by Senator Pearson, and I would like to direct them to you at this time.

Mr. Neuburger, there has already been some discussion of aircraft sales abroad. What has the experience of Beech Aircraft been in trying to make foreign sales, and in which countries do you find the greatest difficulty?

Mr. NEUBURGER. Well, our experience has been that we have—let me take the first part of your statement, Senator. We are selling in

about 70 countries. We consider all countries outside the Communist controlled areas as our market area. We have made a concerted effort to penetrate these markets.

We, as I mentioned in this statement earlier, sell about half of our export volume to developed industrialized countries, which is largely Europe, and Japan and Australia, New Zealand, and South Africa, and Canada. The other half is the less developed countries and they are in mostly Latin America, which is about, Latin America assumes about, I would say, 22 to 25 percent of our volume to date. Now, it may interest you that prior to 1955 and in the late 1950's, when Europe became our major market and today absorbs over 40 percent of our export volume, Europe alone, prior to that time, Latin America absorbed two-thirds of our export volume. And the relative importance of Latin America declined largely because of the economic difficulties in the very large markets of Latin America, which are Brazil, Argentina, Chile, Colombia. We still have a good potential in Venezuela and Mexico. We sell in Central America with good success, and in Peru, but we are to a great extent today, in difficulty in those large markets which I mentioned. And one of the difficulties that we encounter there is that we cannot get financing to any large degree in Brazil and Argentina. We realize that both countries have been in economic difficulties, but we feel that a relaxation or, I may put it this way, that perhaps a spreading of the risk as an additional supplementation discount authority would provide and make the risks acceptable.

I also feel that if political guarantees were furnished either in this act or in any other way by the Government, the commercial banks of the United States would probably with the participation which we are by policy or statute, I am not quite sure, which of the Export-Import at the moment, but we do participate as an exporter, I think we would find financing for many qualified borrowers in Brazil and in Argentina. I mention those because those are the two biggest markets in the world actually for light aircraft.

I might make also this statement, Mr. Chairman, that I have mentioned that in the last 2 years we have financed about 19 percent of our export volume. We have extended credit for about 12 to 13 years now, in our export operations. We have never lost $1 in any default. Some of this was backed by guarantees, some of it we held in the portfolio of our own acceptance corporation, without guarantees, some of it was done in conjunction with commercial banks, but we have never lost a dollar.

And I am saying this in reference to statements that were made yesterday in the hearing by Senator Magnuson, as well as by Representative Adams, pointing to the fears that seemed to exist about the risks involved in this financing. I think if someone were to make a study of the relationship of defaults in international trade credit, and I am only speaking of trade credit, not of bonds and other things that are international financing, but I think the degree of default in international trade is an infinitesimally small amount to the volume of international trade and I think if one of the foundations would make a study over the last 50 years worldwide, they would find this is so. I don't have the figures to back it up, but I think this is borne out by experience and risks; yes, risks do exist, but I don't think anybody would advise the Export-Import Bank or any other lending institution

not to apply sound credit criteria. But there is a great latitude in that, and I think the administration of credit like in our case, where we have never lost $1, is an indication that even where guarantees were not furnished and credit had to be extended in order to save the sale, nothing was lost. Therefore, the guarantees could safely be extended a little more liberally than they have been in the past and no money would be thrown out.

This is the statement I potentially wanted to make.

Senator HARTKE. What potential do you see for general aviation if this bill is passed? Senator Pearson asked me to do this.

Mr. NEUBURGER. General aviation I believe is the one segment in the aviation industry which hasn't even scratched the surface of the world markets. There is an unsatisfied amount for transportation and especially for utility aircraft, and the more developed the emerging nations become, the more demand they will have for airplanes. Put it in figures, I would say that with proper financing, the potential of utility aircraft sales could easily increase by 20, 25 percent each year.

Senator HARTKE. Senator Pearson has also asked me to ask this question. How would expanded trade of aviation products help the United States?

Mr. NEUBURGER. In many ways, Mr. Chairman, some of which I pointed out here. Naturally, in return, in financial return, as it will be reflected in the balance of payments, in tying other countries technically to the United States, there is, we might almost call it a dependence of other countries on the supplier of highly technical equipment. When we sell an airplane, we sell spare parts, we sell technical assistance, we train the mechanics, we train the pilots, their people become oriented toward the United States and they become in a sense technically dependent on us. The more money they have invested, less will be the tendency to go to another country for followon purchases.

Senator HARTKE. Let me ask you, Mr. Neuburger, have you experienced any difficulty in delay in applications to the Bank itself?

Mr. NEUBURGER. In the past; yes, sir. In recent times, it has become much better.

Senator HARTKE. It has become better?

Mr. NEUBURGER. Yes, I think they have made an effort to process these applications quickly. We can sometimes get through the commercial banks in 24 hours, an indication whether we may or may not count with Export-Import Bank guarantees.

Senator HARTKE. Are you familiar with the charges that are made by competitive foreign banks to that which corresponds to the Export-Import Bank?

Mr. NEUBURGER. Now, no, I don't think I can answer that question with facts, no. I do know that foreign banks do extend credit. I know from my own experience many years ago, when I was in business in Europe, the export-import business, that some foreign banks are very liberal compared with what we have to offer, but I could not give you definite comparisons.

Senator HARTKE. Any other questions?

Thank you, sir.

Mr. NEUBURGER. Thank you, Mr. Chairman.

Senator HARTKE. We had two other witnesses scheduled this morning, but we have a list of five witnesses for this afternoon, and the com-

mittee will now recess until 2 o'clock, at which time the distinguished chairman will be Mrs. Neuberger.

(Whereupon, at 12:23 p.m., the committee was recessed, to reconvene at 2 p.m., this same day.)

AFTERNOON SESSION

Senator NEUBERGER. The committee will be in session and first witness will be Frank Sylvester, director of international sales, Piper Aircraft Corp., Lock Haven, Pa.

Mr. Sylvester, do you have a prepared statement?

Mr. SYLVESTER. Yes; I have.

Senator NEUBERGER. You may proceed as you wish. If you would like to abbreviate some of your statement and have it all put in the record as read, we will be glad to do it, or you may read it in its entirety as you desire.

Mr. SYLVESTER. Very well, thank you.

STATEMENT OF FRANK M. SYLVESTER, REPRESENTING THE PIPER AIRCRAFT CORP., OF LOCK HAVEN, PA.

Mr. SYLVESTER. Madam Chairman and members of the committee, I am Frank M. Sylvester representing the Piper Aircraft Corp., of Lock Haven, Pa., as its director of international sales. Our company, as one of this country's oldest and foremost aircraft manufacturers, produces and markets a broad and versatile line of aircraft ranging from a light single-engine, two-place trainer through a series of twin-engine models that are widely employed as personal and business transports.

We are acutely aware of the necessity for the expeditious improvement of our balance-of-payments position and of the consequent requirement for intensification of this country's efforts to expand and increase its exports.

We therefore sincerely appreciate this opportunity to appear before you to give assurance of our continued support to these efforts and to present our understanding of what is needed in the area of new and expanded export financing sources if our export potential is to be achieved. Piper Aircraft is a member of the Aerospace Industries Association of America, and at this point we would like to record our complete concurrence with material presented earlier in these proceedings by Mr. Karl G. Harr on behalf of that association.

For many years we have been active in international markets throughout the free world, and our products have received excellent acceptance in them. A combination of accelerated economic growth and technical advancement has produced a trend of rapid expansion in these markets during the past 5 years.

It is noteworthy that the light aircraft market in the United States—huge by foreign standards—supports an industry with engineering, production, and management capabilities that no other country or area can duplicate at the present time. It is this which accounts for the technical superiority of American aircraft, their highly competitive prices, and the dominant position that U.S. manufacturers enjoy in virtually every export market currently open to them.

For the fiscal year ending September 30, 1962, exports of Piper aircraft, spare parts, and accessories, expressed in billings to our distributors—that is dollar payments to us—amounted to $7,333,500. In 1963 this was increased by some 26 percent to $9,202,000.

Aircraft with an export value of $12,150,000 were sold through distributors in 55 foreign countries during 1964. The sale of spare parts and accessories during this period amounted to $930,000, raising our export sales total to $13,080,000. This represented an increase of approximately 42 percent over the previous year and a 78-percent increase in 2 years.

I believe that it is also noteworthy that our exports—as a percentage of our total volume of business—have shown steady improvement over recent years and that for the past year they accounted for slightly more than 25 percent of our total business.

In keeping with our policy of strengthening and expanding our foreign sales organization, and with the intensification of our export sales efforts, we established during 1964 13 new distributor franchises in various foreign markets and employed 4 highly qualified regional managers to represent us in Latin America and the Far East. To more aggressively deal with increased competition from local manufacturers in various European countries and to develop new markets in Africa and the Middle East we formed, in 1962, Piper Aircraft International—a wholly owned sales and service subsidiary located in Geneva, Switzerland. Inventories of aircraft and spare parts valued at more than $1 million are maintained at this location.

The results of these investments have been most gratifying.

These activities, combined with continued improvements and additions to our product line, have enabled us to forecast continued growth and expansion of our export markets. It is now apparent that our export sales volume for the current fiscal year will exceed $15 million—an increase of some 25 percent over the previous year.

It may be timely and appropriate to dispel any thoughts that we export a "luxury" line of products. Because of their proven ability to operate efficiently and economically from short, unsurfaced fields, our twin-engine aircraft have made significant contributions toward opening lines of communication and transportation in underdeveloped countries, particularly where surface transportation is impractical or unavailable. Our agricultural aircraft—over 750 of which have been exported since 1960—have raised crop yields, opened new areas to agriculture, and freed labor for industrial employment in numerous countries. In 1964 we exported 195, or 40 percent of our total production of this aircraft.

From the foregoing, it would seem reasonable to assume an average annual increase in our exports amounting to 15 to 18 percent through 1970. This would mean that our total export potential for the 5-year period is approximately $125 million, and that our sales potential for 1970 is in excess of $30 million.

Although significant increases can be registered without additional or more liberal financing facilities, the realization of the full potential will, in fact, be dependent on new or expanded financing sources. This applies also to our collective ability as an industry to insure continued dominance over foreign competition. We believe, as a conservative estimate, that 30 percent of this prospective export volume will be

dependent upon financing for which there is no presently available source.

Such resources of our own that might be employed to finance exports are committed to research and development, expansion of fixed facilities, increased inventories, and improvement of production methods to meet the growth and competitive pace of this expanding world market. Certainly, a supplemental source of export financing would complement these investments and would provide the entire industry with an invaluable sales tool.

We are aware of and have a sincere appreciation for the valuable and significant support that American industry has received from the Export-Import Bank, and have no desire or intention to be critical of it. Experience has shown, however, that Eximbank policies, procedures, and criteria are not tailored to our requirements.

For example, a wholly-owned subsidiary of an exporter, based in a foreign country and operating as a qualified export trade corporation, is not eligible to make application for assistance in financing sales of U.S.-manufactured goods to a foreign importer. The extension of comparable credit facilities to such firms would have a salutary effect upon the foreign sales of U.S. manufacturers.

Application of Export-Import Bank policies in certain areas of the world tend to inhibit sales by (1) prohibition against revolving credit line, and by (2) limitations on Export-Import Bank assistance per exporter and per buyer in any one year to an invoice value not exceeding, in some cases, $150,000.

It is our experience that numerous prospective sales programs have been unable to qualify for Eximbank financing and that sales have been and will continue to be lost without supplemental and expanded credit facilities more practically tailored to our needs.

At times a paradoxical gulf exists between the needs of the foreign buyer and facilities offered by the Export-Import Bank. As an example, a Chilean importer cannot obtain authorization to transfer funds until 120 days has elapsed after the bill-of-lading date. Eximbank requires a 20-percent cash payment on or about the date of delivery and apparently cannot accede to a 120-day draft to meet this requirement even though such draft would be for the sole risk of the exporter.

There is also a firm requirement in financing for Argentina and Brazil of an "aval" or guarantee by a specified bank. In theory such guarantees may be available, but in actual practice they are virtually impossible to obtain or serve to make financial costs prohibitive.

At this point I would like to add that in this connection, we are pleased to note that title II, section 201F S–558 addresses itself to these requirements for supplemental financing and appears designed to satisfy them.

These comments are not intended as criticism of Eximbank activities, for it does serve as a springboard to foreign sales, and unquestionably many export sales consummated would have been lost without existing Eximbank facilities. Our observation is merely that the lack of flexibility in the springboard does not enable U.S. exporters to achieve the maximum "splash" intended.

It is our opinion that the foreign trade potential of American industry can only be realized through a more practical and flexible

financing program and one which can recognize a conflict with local internal regulations and permit reasonable compromise, thus permitting the extension of credit and the flow of goods to foreign importers of proven financial stability, integrity, and resources.

In closing, may I once again express, on behalf of Piper Aircraft, our sincere appreciation for this opportunity to describe our export sales problems and how we hope to meet them. We share the confidence of our associates in industry that our problems can be solved, our goals achieved, and our balance-of-payments position reversed through our cooperative and collaborative efforts.

Thank you.

Senator NEUBERGER. Thank you, very much. Your testimony is very helpful. I was curious about one thing. Do you, as an experienced company using the Export-Import Bank, do you anticipate that the Bank will oppose our bill or what fault would they find with it? Can you anticipate?

Mr. SYLVESTER. I think that I am not, Madam Chairman, competent to comment on that. I wouldn't have an answer.

Senator NEUBERGER. I know you wouldn't want to say, so let us not take the Export-Import Bank. Let us discuss opposition that might confront this bill, when I hope we, as a committee, send it to the floor. It is easier to defend it if we know what opposition might arise and you, as an experienced company using the Bank, can you anticipate why there would be any objection to passage of this bill?

Mr. SYLVESTER. As a practical matter, we really don't use the Bank. I think the credit to our customers that has been extended is limited to about $150,000. And——

Senator NEUBERGER. In other words, you found it so restrictive that you haven't been able to use it?

Mr. SYLVESTER. It has not been a practical avenue for us.

Senator NEUBERGER. Can you estimate the dollar potential in export sales for your company which might be realized in the future if financing were available and more competitive? That is, competitive with other countries?

Mr. SYLVESTER. We believe that about 30 percent of our sales in the future and with the growth that we have forecast will be dependent upon a source of financing, let's say, similar to that now offered by Eximbank, but more practically tailored to requirements of ours and our customers.

Senator NEUBERGER. You can't estimate a dollar potential? I think it might be useful, probably you won't find it on short notice——

Mr. SYLVESTER. We are doing, as Mr. Neuburger pointed out. It is necessary to continue our exports and to build them, we find it necessary to do a large amount of our own financing. We have financed customers whose applications to the Export-Import Bank have been, for a variety of reasons, rejected and it has been our experience that these are good customers and in fact, again repeating Mr. Neuburger's statement, we haven't yet lost a dollar on them.

But we are not in the banking business, very simply stated, we are manufacturers of aircraft and aircraft accessories and we think that we should stay in that business. And that we shouldn't be in the banking business, as it were.

Senator NEUBERGER. Thank you very much, Mr. Sylvester. That is all.

For the record I would like to introduce at this point a letter from Mr. Hammer of the Cessna Aircraft Co.

(The letter follows:)

CESSNA AIRCRAFT CO.,
Wichita, Kans., March 12, 1965.

Chairman WARREN G. MAGNUSON,
Senate Commerce Committee,
New Senate Office Building, Washington, D.C.

SIR: We would appreciate having this letter entered into the records of the hearings to be held by your committee on March 17, 18, and 19, relative to the export financing gap as it affects our company and industry.

At the present time, we are trying to obtain two large orders for certain of our aircraft. One of the orders will be from a Far Eastern country and the other one from a country in South America. To obtain these orders, which will be handled through the air force of each of these countries, financing beyond what is available today will be required. We feel that when orders of this type have the blessing of the Department of Defense and the State Department, they should be handled by the Export-Import Bank in the interest of our national commerce and balance-of-payments position. In one of the instances mentioned above, we are competing with a foreign company which has been able to offer better financing terms than are available to any U.S. manufacturer.

We do not feel that it is in the best interests of the U.S. manufacturer to be placed in a position where he must carry the total export financing load, as it limits the amount of business that can be handled if working capital is tied up in this type of financing.

We strongly feel that throughout the Middle East, the west coast of Africa, all of South America, and—to be specific—India and Pakistan, there is a large, potentially untapped market for our products. As things stand in the world today, the only way that these markets can be effectively covered is with some type of financial assistance to us, as the manufacturer, or to the customer directly.

It is our company's position that the Export-Import Bank is too restrictive when it comes to granting credit to a public buyer. Our aircraft lend themselves particularly well to transportation of government executives and to training. In many of the foreign countries, aircraft flight training as it is known in the United States is sponsored by the air force through flying clubs. The great majority of the pilots being trained int this manner do not end up in the military service, but go into air taxi operations. In fact, in some of the countries in Latin America, the air taxi business is actually a part of the air force operations.

In most of the underdeveloped countries of the world today, light commercial aircraft, as offered by the U.S. industry, is the most economical and feasible means of transportation. An aircraft landing strip can be constructed in most areas of the world with very primitive tools and at very little manpower expense. When this cost is compared to the cost of building roads or railroads, the airplane as the chief means of transportation is by far the least expensive. To tap this market, outside financing assistance will be required by our industry.

Some time back, when the Export-Import Bank granted authority to commercial banks in this country to approve certain financing transactions without prior clearance from the Export-Import Bank, a much-needed improvement in the time that it took to process a transaction was most beneficial to the U.S. exporter. We feel, however, that until granting of credit for international transactions can be made as rapidly as for a similar transaction in the United States, the U.S. exporter is still not in a competitive position on financing with many of the exporters in the European countries.

We certainly hope that the hearings held by your committee will bring forth new or more advanced financing programs, and we thank you for the opportunity which we had to participate.

Very truly yours,

(Signed) D. W. HAMMER,
Export Finance Manager.

The CHAIRMAN. The next witness is Mr. Thomas Sim, vice president of the Aero Commander Corp., Oklahoma City.

STATEMENT OF THOMAS SIM, DIRECTOR OF INTERNATIONAL SALES, AERO COMMANDER DIVISION, ROCKWELL-STANDARD CORP.

Mr. SIM. Madam Chairman, I am Thomas Sim, director of international sales of the Aero Commander division of Rockwell-Standard Corp. The manufacturing and sales facilities of my company are located in Oklahoma City.

Senator NEUBERGER. May I interrupt again to say that if in any way you can abridge your testimony, and if you are so inclined, we have a long list of witnesses today, you are perfectly privileged to read it in its entirety, although it will appear as if read, if you would like to do that.

Mr. SIM. All right, Senator, I will do my best to try and get my message across as briefly as possible and not repeat some of the things that have already been said this morning.

Senator NEUBERGER. Thank you.

Mr. SIM. Mr. Harr mentioned this morning that the annual aerospace exports for the past 3 years have averaged $1.3 billion. He was including in that figure the shipments or export sales of utility airplanes, and for the benefit of the committee and for the record, I would like to amplify on his figures and comment on the job that we have been doing in our industry for the last 3 or 4 years.

In 1962, the export sales of utility manufactured airplanes was $31 million; in 1963, $35 million; in 1954, $44 million, and the projected sales for this year are $55 million.

We, in our segment of the industry, think this is very significant because it represents not only a growth factor that is evident, but also the fact that we are doing business in 70 different countries, and last year 4 companies exported a total of 1,775 air frames in sizes from single airplanes on up to 9,000-pound gross weight airplanes.

The price tag of the Aero Commander—it is a very expensive airplane—starts at $94,500 for a standard airplane, and on up to $595,000 for our twin-jet Commander. These prices do not include avionics and other items of optional equipment.

Senator NEUBERGER. What is avionics?

Mr. SIM. Electronics that are required, radios, navigation aids, weather radar, autopilot, and so, they fall in the category of avionics.

Senator NEUBERGER. What is the root of that word—aviation?

Mr. SIM. Senator, I think the root of the word came out of the Pentagon. [Laughter.]

Senator NEUBERGER. They coin a lot of things over there.

Mr. SIM. We developed this line of airplanes without the benefit of any U.S. Government orders or development funds. They have been developed with private capital and our commercial sales—both export and domestic, account for about 95 percent of our business.

We have some problems that the other manufacturers of the large transports don't have because we face duties on our airplanes and taxes which range anywhere from 10 to 40 percent, and in the case of the large transport manufacturers, they are selling to the airlines, which are national instruments, and in most cases, the duties are waived, or they take it out of one pocket and put it in another.

We are dealing primarily with private individuals and they have to pay duties and taxes. In spite of the fact that the airplanes cost anywhere from 10 to 40 percent more, we still have the bulk of the utility airplane world market because the utility airplanes that are built in this country are the best in the world.

The basic requirement in the newly developing countries and in many of the long-established countries is adequate and understanding financing terms. Most of our potential sales in Latin America to private individuals and to nonmilitary government agencies are going to require financing, and the same applies in Africa and in some cases in Europe and Asia.

We have always endeavored to help our customers arrange financing, and we have had some degree of success with the commercial banks and the Foreign Credit Insurance Corporation, and Eximbank.

But we have also had some degree of nonsuccess, and about 3 years ago, I was the prime mover in my company for the establishment of our own acceptance corporation. Our financial people didn't think this was a very good idea, but our top management felt that it was, because we intend to use it as a sales tool.

We, as a company, I, as an individual, are very cognizant about the balance-of-payments problems. It is one that concerns me deeply.

We established our acceptance corporation, and one of the first transactions we handled through that corporation was an export loan to a customer in Venezuela. One of the leading commercial banks in this country had rejected the loan. We took it and it paid off like clockwork. We could count the day when the payment was going to come in, and it always came in.

About 3 years ago, one of our distributors in one of the Latin American countries, and at the risk of the Chair being a little annoyed at the mention of Argentina, we applied to the Export-Import Bank for financing, and the customer had terms of 25 percent downpayment. He had the appropriate banking guarantees, but he desired to establish a repayment schedule on an annual basis, and the prime reason that the Export-Import Bank rejected the loan was because they felt the payments should be paid on a quarterly basis which was not convenient for the customer.

We again handled that particular transaction ourselves, and the loan was paid off on schedule.

About 2 years ago, we were fortunate enough to sell an Aero Commander to the President of one of the newly emerging countries in Africa, and I might add, Senator, that there are seven Presidents of the newly emerging countries in Africa that use Aero Commanders for their personal transportation.

We had an appropriate guarantee signed by the Ministry of Finance, and we applied to one of the commercial banks working through them to Eximbank, and they told us in spite of the guarantee we had, it would be necessary that we get a guarantee from a commercial bank in this particular country.

Well, my financial people came back to me and said, "This is what you have to do," and I absolutely refused to do it, because, for me, the commitment from the Ministry of Finance was satisfactory as far as I was concerned, and if I went back and asked those people to get me

a guarantee from a commercial bank, I am afraid I would have been rapidly exported from the country without a sale in my pocket.

I have given these examples not to be critical of Eximbank, or the banks, because I feel that part of the fault is in our own industry and that maybe we haven't educated the Eximbank or the commercial banks as to the job we do and are trying to do.

Now, among ourselves, we are going to hope to evolve a program where we can get our message across because we feel that the Bank, the Eximbank, when somebody comes in and talks about an airplane, unless it is a great big jet that goes intercontinental, that is the only plane in their mind that is really manufactured. This is partially our fault and we hope to correct it.

The President has told us that we must redouble our exports, and my company is prepared to do everything it can to pull its share of the load, and he has also said that efforts will be made to assure the American industry of sound and competitive financing.

Well, if the purpose of this committee's hearing is to achieve that end, I am very grateful for the privilege of appearing before you today.

(The statement follows:)

STATEMENT OF THOMAS SIM, DIRECTOR OF INTERNATIONAL SALES, AERO COMMANDER DIVISION, ROCKWELL-STANDARD CORP., BEFORE THE SENATE COMMITTEE ON COMMERCE, SUBMITTED MARCH 17, 1965

Mr. Chairman and members of the committee, I am Thomas Sim, director of international sales of the Aero Commander Division of Rockwell-Standard Corp. The manufacturing and sales facilities of my company are located in Oklahoma City.

I consider it a privilege to appear here today and apprise the committee of the contribution which the Aero Commander Division of Rockwell-Standard Corp. makes to the U.S. balance of payments and the interest which my company has in the ever-expanding export market potential for the type of airplanes which we manufacture.

We are members of the Aerospace Industries Association and I have been an active member of the international committee, Utility Airplane Council, of the AIA for the past 6 years. In addition, with the approval of our corporate management, I am a member of Governor Bellmon's Advisory Committee on Export Expansion, and a member of the Dallas Regional Export Expansion Council. The Aero Commander Division of Rockwell-Standard Corp. was awarded the Presidential "E" for export expansion, and I believe we were one of the first of the aerospace companies to achieve that honor.

I am giving this background, gentlemen, to indicate the desire and interest which Col. W. F. Rockwell, chairman of the board, and Willard F. Rockwell, Jr., president of Rockwell-Standard Corp., have in expanding our export sales as they realize, as does the rest of our management, that export sales are a definite and basic requirement for the growth of the free enterprise system which our company represents. The export sales volume of my company approximates 32 to 35 percent of our total unit and dollar volume, and we have achieved this percentage for the past 3 years.

I believe Mr. Karl Harr, president of the Aerospace Industries Association, reported to the committee in his testimony that U.S. commercial aerospace exports have averaged $1.3 billion annually for the last 3 years. This figure includes the export totals of utility airplanes, but I would like to amplify and pinpoint for the committee the figures as they relate to our segment of the industry.

In 1962, the export sales of U.S. manufactured utility aircraft amounted to $31 million; in 1963 the figure rose to $35 million; and in 1964 the total was $44 million. For 1965, the projected sales figures are $55 million. A possible reaction to these dollar amounts when one equates them to the overall aerospace exports is they are somewhat insignificant. Gentlemen, I assure you they

are not, because we are dealing with a different type of customer than our colleagues in the industry who manufacture the large transport and military aircraft which this country exports. I might add that the utility aircraft sales I have mentioned represent, to a major extent, the export sales of four companies—Piper Aircraft, Beech Aircraft, Cessna Aircraft and, naturally, the Aero Commander Division of Rockwell-Standard Corp.

The price range of the Aero Commander product line is $94,500 for our lowest priced piston-powered airplane, up to $595,000 for the turbojet-powered Jet Commander. These prices do not include avionics and other items of optional equipment. We have developed this line of airplanes without the benefit of U.S. Government orders or development funds. They have been developed with private capital and our commercial sales—both export and domestic, account for about 95 percent of our annual sales volume.

I previously mentioned that our customers are a different type from those the manufacturers of the transport and military type airplanes deal with. Consequently, we are faced with a different set of problems. Our colleagues who sell large transports usually deal with airlines which are national instruments and consequently the duties and taxes assessed by overseas countries are waived. In our case, dealing with private individuals and companies, our customers are obliged to pay duties and taxes which range anywhere from 10 to 40 percent of the landed value of our airplanes, depending on the importing country. I might add, Mr. Chairman, that we in this country are somewhat more lenient in respect to the duties and taxes we assess against foreign airplanes which are imported into the United States.

In spite of the fact that our overseas customers pay anywhere from 10 to 40 percent more than their counterparts in this country, we are confident that the export market potential is still untapped. As far as utility airplanes are concerned, the airplane industries in the Communist countries cannot compete. The same applies to the utility airplane industries which exist in other areas of the free world. I believe that the utility, general, and business type airplanes built in this country are the best in the world.

The basic requirement of all the newly developing countries, as well as some of the long established countries, is adequate and understanding financing terms. Most of our potential sales in Latin America, both to commercial customers and to nonmilitary government agencies, require financing. The same is true in Africa, and in some cases in Europe and Asia as well.

My company has always endeavored to assist and arrange financing on behalf of our existing and potential customers whenever it was required. We have had some degree of success with both commercial banks, Foreign Credit Insurance Corp., and Eximbank. We have also had some degree of nonsuccess for a number of reasons, and in such cases we have assumed the financing on our own.

Three years ago we established the Aero Commander Acceptance Corp., and one of the first transactions we handled through that corporation was an export sale to a customer in Venezuela. We endeavored to arrange financing through a commercial bank with an Eximbank guarantee. We could not complete the transaction so we handled it ourselves, and the loan was repaid on schedule at an attractive interest rate. As a matter of fact, gentlemen, after we had completed the financing arrangements the commercial bank, which initially rejected the deal, made overtures to our Acceptance Corp. to purchase the paper, which was not for sale.

A little over 3 years ago, one of our distributors in Latin America sold a total of three airplanes to the aeronautics authority of a particular Province. Financing was required, and we endeavored to arrange same with the Eximbank. The customer, because of the Province's fiscal policies, desired 3 years' financing with a 25-percent downpayment, appropriate banking guarantees, and annual payments. The financing was not approved by the Eximbank, primarily because they insisted on quarterly repayments instead of the annual payments preferred by the customer. We handled the financing on our own and the loan was repaid on schedule.

Two years ago we sold an Aero Commander for the use of the President of one of the newly emerging countries in Africa. The customer indicated to us that financing was desired. We obtained what we felt was a satisfactory payment guarantee, duly executed and signed by an appropriate official of the country's Ministry of Finance. We applied through one of the largest commercial banks in this country for financing with an Eximbank guarantee. We

were told by the commercial bank that in addition to the guarantee we had from the Finance Ministry a further guarantee was required from the leading commercial bank in the country in question * * * which, incidentally, was a British bank. As matters developed, the customer paid cash for the airplane, but if a cash payment had not been possible we might have lost a sale.

I have quoted these examples, not as criticism of our commercial banks or the Eximbank, but to point out to the committee some of the roadblocks we encounter in not having flexible and understanding financing sources readily available, except our own resources.

Mr. W. F. Rockwell, Jr., and the top management of Rockwell-Standard Corp., have approved of our Acceptance Corp. expanding its scope and used as a sales tool. This does not mean that a salesman like myself can promise financing to every one of our potential customers. It does mean, however, that Rockwell-Standard Corp. is prepared to do all it can to promote export sales and make an even greater contribution to the U.S. balance of payments than it now does.

President Johnson has told the country that we must redouble our efforts to promote exports, and that efforts will be made to assure our industries sound and fully competitive financing. If the purpose of this committee's hearing is to achieve the desired results, then I am grateful for the privilege of appearing before you today.

If the committee has any questions they would care to ask, I will be pleased to try to answer them. Thank you, Mr. Chairman and members of the Senate Committee on Commerce.

Senator NEUBERGER. Thank you. I appreciate the very good summary of your excellent remarks.

I am always interested in one thing about airplanes that we finance. What happens if they crash? Do you carry insurance, or——

Mr. SIM. Usually, Senator, it kind of works like GMAC. If you have a loan on their car, they are named as a coinsured, and we are named as the coinsured in the event of loss. They are insured through commercial insurance companies.

Senator NEUBERGER. I always wonder about a potentially perishable product like this, if that is a deterrent toward getting a loan on it, but, of course, more and more we have accepted the plane as we accept the automobile and as we used to accept the buggy.

But when an airplane crashes, it is a loss, it seems to me, and I often wondered about the insurance on it.

Mr. SIM. There is adequate insurance coverage for any financing we do.

Senator NEUBERGER. Senator Monroney is very interested in your testimony and in this bill, and he asked me if I would ask a question in his place. That refers to this—you mentioned the duty taxes on page 3 of your testimony. You said there is a disparity between the import duties paid on planes you sell abroad and the import duties paid on aircraft manufactured in other nations, and he would be interested in your comment in more detail concerning the types of foreign aircraft you are competing with, and the differences in tariff in the country of their manufacture versus ours.

Mr. SIM. Senator, if I might take a moment to preface my answer with this remark, about a year ago, I represented the utility airframe industry before the Trade Development Committee hearings.

These were the people that were going over as part of our GATT negotiating team. The four companies involved took a unified stand for the liberalization of duties, ours and the other countries, and we said eliminate our 10 percent duty if you can get the British and the French and the Indonesians and Dutch to reduce their duties. That was the stand we took as an industry.

The difference is rather substantial because an airplane, say, that competes with our Jet Commander, approximately the same size, the MS–125, which is built by the Hawker-Siddley Co. in England, that can enter this country with the payment of a duty of simply 10 percent.

Now, if I want to sell a Jet Commander in England, I have to pay 14½ percent duty, plus 10 percent surcharge that the Labor Government over there established, and, incidentally, this particular segment of the industry also developed a position paper on that particular matter.

But we didn't get anywhere with it. We got a letter back from the executive secretary of our trade negotiating team saying that they were sympathetic with our stand and thanked us for developing the paper, but reminded us that the British had a balance-of-payments problem.

And I reminded this gentleman, at an AIA International Committee meeting last week, the British don't have any exclusive right to that particular problem and that we also had one.

But there is a disparity in duty. We are not asking for protection. We will fight it out in the marketplace with anybody. All we ask for is a fair shake.

Senator NEUBERGER. I would like to ask you the same question I asked Mr. Sylvester, and that is the possible opposition to this bill, and I ask it again of you for this reason.

You mentioned that maybe it was your fault that you had not properly educated or talked to the Eximbank officials about it. Don't you feel that they would be amenable to hearing your arguments that we are hearing?

Mr. SIM. They might be, Senator. I hope they are. And we are going to try and get the message across to them, but it appears to me, personally, that the Export-Import Bank operates pretty much like a commercial bank. They are not very flexible, or we have never found them to be very flexible in their understanding of what is required.

The CHAIRMAN. That is our fault here in the Congress because we have restricted them?

Mr. SIM. No, ma'am; I can't say part of the fault of Congress, I think it is part of the operation of the Bank. I mean we hear these bankers at our interrogational committee meetings. We have heard them for years, not only Export-Import Bank, but also the commercial bankers.

You know, I have quit attending those sessions because I usually find I can do more productive work outside because I am hearing the same thing over and over each year. It is like a broken record.

The CHAIRMAN. I am interested because I wear two hats. I serve on the Banking and Currency Committee, which deals a great deal with the Export-Import Bank and some of the problems they have had, and I hear a little bit different story in the other committee meeting and that is why I wondered.

Mr. SIM. I think Mr. Sylvester, in his statement, mentioned the requirement for an "aval." Many of our sales, some of our sales go to nonmilitary government agencies and to ask a nonmilitary government agency in Brazil or Argentina or Chile for an "aval," is tantamount to asking for a treasury guarantee on something that the General Services Administration buys.

The CHAIRMAN. I see. Thank you very much. I have enjoyed your testimony, and I next call Mr. Charles Stewart.

Mr. SIM. Thank you, Senator.

The CHAIRMAN. Mr. Stewart will be accompanied by Mr. van der Voort, economist, and Mr. Paul Pratt, assistant secretary, Machinery and Allied Products Institute.

STATEMENT OF CHARLES W. STEWART, PRESIDENT; ACCOMPANIED BY A. B. VAN DER VOORT, ECONOMIST; AND PAUL H. PRATT, ASSISTANT SECRETARY, MACHINERY AND ALLIED PRODUCTS INSTITUTE

The CHAIRMAN. Mr. Stewart, I understand you have submitted your testimony. We would like to hear some comments from you.

Mr. STEWART. Thank you, Madam Chairman.

I am accompanied—not at the table, but in the room—by two of my associates, Mr. van der Voort and Mr. Pratt, who have worked in this field for some years, and if you have questions, I might pass some of them on to them.

If I might take a few moments, I think it might be constructive from the standpoint of the record, if I commented briefly, not from my paper, which is before you and which I ask be in the record in its entirety, in its complete form.

The CHAIRMAN. Yes, sir; it will be copied.

(Statement follows:)

The Machinery and Allied Products Institute and its affiliate organization, the Council for Technological Advancement, are privileged to have the opportunity to appear before this distinguished committee in hearings on S. 558 which is designed to expand foreign markets for U.S. products.

First, a word about MAPI and CTA, with special reference to our interest in this subject. These organizations represent the capital goods industries of the United States. Their total volume of business runs about $50 billion a year in products and services.

Turning to the export field, U.S. exports of capital equipment in 1964 totaled well over $7 billion. Capital equipment exports have, for many years, represented the largest single category of goods shipped from this country.

In view of the importance of foreign markets to capital goods manufacturers, their heavy reliance on export financing which must be offered on terms competitive with their foreign counterparts, and our own experience with the problems confronted by these companies in this area, we would like to give particular attention to this aspect of the bill.

We do so against a background of long study in the field of foreign trade, including export markets as well as licensing and private investment abroad.

It was our privilege to appear before this committee on April 29, 1960, and today we will attempt to update and expand that testimony in the light of S. 558 and intervening developments.

The institute has followed closely the work of the Export-Import Bank and all other institutions, both private and public, that are involved in export credit financing and assistance to companies in their approaches to penetrating foreign markets.

In this connection MAPI published a book in February 1961 on financing U.S. exports, and the new edition, "Financing U.S. Exports and Overseas Investment," was issued in 1964. This book has been made available to your staff and we hope that it is of some assistance, at least for background purposes.

I should point out that we are more concerned with the substance of any improvements which may be called for than the particular mechanism through which they might be executed. Whether these improvements should be instituted within the present organization structure of the Bank is a question which we would prefer to leave to others.

Of course, if the Bank feels that improvements, adjudged to be necessary by the Committee, should not be properly instituted within the context of the Bank's present operations, the Committee may decide that it is more suitable to implement them through a separate facility to be created especially for that purpose.

TIMELINESS AND IMPORTANCE OF LEGISLATIVE AND EXECUTIVE REVIEW

First, I should like to congratulate the chairman, Senator Magnuson, for the introduction of S. 558 and the Senate Committee on Commerce as a whole on its decision to hold hearings. These hearings, of course, take place at a juncture when the United States is increasing its efforts to improve the country's balance-of-payments position.

They are, therefore, especially timely.

We should not lose sight of the fact, however, that in order for the United States to be a continuing great force in international trade and to improve its competitive position internationally, it must develop long-range policy on international economic and commercial matters and keep that policy viable despite periodic disturbing developments.

Otherwise the policy will be encumbered by short-range reactions and influences blurring long-range vision and dampening long-range payoff.

The institute is pleased with the leadership being provided by Senator Magnuson and the committee in general, and we think that it is also very useful that the Senator in his preliminary announcement with regard to the hearings identified certain specific areas of possible reform .

It will be recalled that he said on February 15, 1965, "As a bare minimum, such reforms must recognize that the national commercial interests may require:

1. Special financing arrangements for export sales to countries experiencing balance-of-payments difficulties;
2. Competitive rates and terms for sales to rapidly developing countries whose markets are eagerly sought after by all exporter nations; and
3. A workable mechanism for advance financing commitments to enable U.S. exporters to negotiate overseas contracts with their financing in hand."

This presentation is divided as follows:

1. Appraisal for current Export-Import Bank programs and policies—a discussion which will delineate and comment upon the gaps which we feel exist.
2. Our view of the administrative philosphy of Export-Import Bank.
3. Implentation of decisions regarding possible modification of the Export-Import Bank program.
4. Brief comments on other portions of the bill before the committee as contained in title I.
5. Brief reference to some overall questions in foreign trade, including the relationship between private investment abroad and exports, to which we recommend the committee give increasing attention in its studies of the role of U.S. business in international trade.

In this section of the statement we will also touch upon the growing practice in government policy formulation to divide up the world between developing and developed countries.

Finally, we wish to call to the attention of the committee a possible adverse effect on exports resulting from the new Federal Reserve Board guideline restricting foreign loans by U.S. banks.

APPRAISAL OF CURRENT EXPORT-IMPORT BANK PROGRAMS AND POLICIES

In discussing improvements that might be considered, we turn particularly to programs of the Export-Import Bank. We address this institution primarily because it is the most important single public institution in the field and the bill is, of course, directing its attention primarily to the public sector.

In all fairness, we should recognize that Export-Import Bank has shown some flexibility in the past few years in improving its programs and tailoring them to fit the needs of U.S. exporters, including those companies in the capital goods sector.

Indeed, it is the history of change on the part of the Bank in addition to its very great importance in export financing that leads us to use it as a yardstick in measuring the adequacy of current programs.

We feel sure that, particularly with increased interest of the President and this committee in U.S. exports, the Bank will continue to review its policies as it has done in the past.

We are therefore especially pleased to take advantage of the opportunity offered by this committee to present the current views of the capital goods industries on this subject. We will stress those gaps which, in the view of capital goods exporters, continue to exist in the Bank's programs.

BACKGROUND COMMENTS ON EXIMBANK'S OPERATION

By way of introduction let us review briefly certain aspects of the Bank's operations. A major innovation undertaken by the Bank in 1961 has now become its common method of operation with respect to exporter credits—i.e., credits extended by the Bank on the application of the seller to finance his particular exports.

This is the program whereunder the Bank guarantees credits extended by the commercial banks. Under this program the Bank requires that commercial banks take without recourse the first 18 months' maturities with respect to export sales on deferred payment terms extending beyond 36 months.

Political risk guarantees are provided on all maturities but commercial risk guarantees only with respect to the later maturities. On terms of 36 months or less, commercial risk guarantees are provided on maturities falling due in the second half of the credit's life.

As in the past, a downpayment (normally 20 percent of the value of the transaction) and the U.S. exporter's participation in the credit (15 percent of the financial portion of the transaction) are required.

Under its project loans, as distinguished from exporter credits, the Bank extends its loan directly to the foreign borrower upon his application. Most such loans are financed directly by the Bank itself, in contrast to exporter credits where Export-Import Bank guarantees are more common.

Now let us turn our attention to gaps that do exist in present Export-Import Bank programs. It is possible that certain of these gaps can be justified in terms of sound administrative policy of a bank using public funds, but the fact remains that gaps do exist, and at least some of them should be corrected, in our judgment. At the minimum they should be identified and frankly discussed.

LIMITATION ON ASSISTANCE TO INDIVIDUAL COUNTRIES OR AREAS

Although as a matter of general policy Export-Import Bank will consider export assistance for any country outside of the Communist orbit, at a given time assistance for transaction involving a particular country may actually be unavailable or very restricted, because of balance-of-payments difficulties as Senator Magnuson has suggested, or due to what the Bank may call over-exposure.

In this connection we realize that banking decisions regarding exposure limits and debt servicing capacity are judgmental but the decisions do not always seem to follow a rational pattern.

For example, on occasion the Bank may deny a series of applications for exporter credits and then approve a substantial project loan or, despite exposure considerations, participate in a balance-of-payments "bailout" action.

Also, in certain instances the assistance available for a particular country carries important limitations. Exporter participation is increased and/or assistance on sales from one supplier to one customer is limited to a given invoice value in the case of certain countries. While there is some flexibility with respect to credit rationing, this remains an important limitation.

One company has questioned this policy on the following grounds: the policy seems unsound particularly where the equipment might have a useful life of 20 to 30 years and is purchased infrequently.

NEED TO ASSURE TERMS ARE COMPETITIVE WITH THOSE OFFERED BY FOREIGN SUPPLIERS

Concern has been expressed that foreign competitors with official backing are offering easier terms to prospective customers of U.S. suppliers than it is currently possible to provide under present Export-Import Bank policies.

Specifically, it has been indicated in some cases that financing for foreign competitors has been made available on longer terms than 5 years where Export-Import Bank has restricted terms to 5 years.

While it is important to avoid a credit war among major free-world countries, it is equally important that the Bank continue to be alert to those situations

where foreign competition may obtain orders because of Government-backed financing terms which are more favorable than those available through U.S. suppliers.

The Eximbank has a source of information on such terms through its participation in the "Berne Union" but we doubt that information from this source tells the whole story. As one approach to change in policy, it has been suggested that at the minimum the exporter be given the option of placing the first 5 years of an exporter credit under the Bank guarantee program and carry the balance himself. This procedure may warrant some consideration. The principal approach, of course, should involve a program to insure that the United States stays competitive as to terms. If there are practical limits on the extent to which the Berne Union restrains conduct of foreign countries, we must recognize that fact and act accordingly.

The Bank undoubtedly has the 5-year term limitation under review. It should be encouraged to adopt more flexible procedures and to do so without delay. A survey which MAPI recently conducted, as discussed in more detail later in this statement, confirmed that the problem of competitive terms is serious.

Financing terms limited by size of transaction: Turning to a related point, the Export-Import Bank has guidelines under which they do not normally offer terms of more than 3 years on sales under $150,000 or more than 4 years for sales under $250,000. This procedure seems unduly rigid and seems unreasonable because if one lumped together several individual transactions of less than $150,000 into a single transaction exceeding $250,000, the equipment might qualify for longer terms.

In addition, the value of the equipment is not always related to its lifespan. Further, longer terms might be appropriate for foreign customers who, though small, are good credit risks. While Eximbank suggests that these guideposts are somewhat flexible, it is the feeling of many companies that they are too closely adhered to.

Failure to provide advance commitments on project loan financing: It has been the experience of capital goods companies that Eximbank would not, in the past, provide U.S. machinery suppliers with firm advance commitments of project loan assistance for their foreign customers. Instead, Eximbank in some cases will issue a "letter of intent" stating that the Bank is willing to negotiate financing with the foreign party and stipulates the amount, length, and other terms that it is prepared to offer.

In contrast, foreign competitors often can provide firm financing commitments, a tremendous sales advantage. We understand that the Bank has provided firm commitments in some instances, depending upon the nature of the project and that it is doing more in this area than was the practice a year ago. However, in the view of many of our companies, this still represents a serious gap and is a matter which deserves more effective and imaginative treatment.

Relaxation of rigid requirements on certain project loans: There is a feeling in industry that many project loans could appropriately be extended on the basis of the borrower's business reputation and financial strength without requiring detailed engineering and other studies of the proposed investment by Eximbank personnel. Eximbank, however, does not proceed on this basis. In this connection there is obviously a limit to the engineering manpower of Eximbank when one considers the wide range of complex projects or transactions which are involved. At least some relaxation of requirements might be considered. In this connection we continue to receive reports that foreign customers are concerned over what appears to be excessive paperwork incident to Eximbank's handling of project loans.

Preference for project loans discriminates against some suppliers: We understand that Eximbank will turn down applications for medium-term exporter credit assistance on sales to foreign projects which the Bank would prefer to finance under a direct "project loan" to the foreign enterprise. By this single-loan approach Eximbank avoids participating in a number of individual credits and examines the package as an integrated whole. Of course, project loans generally require much more documentation and take much longer to conclude than exporter credits. Further, not all foreign enterprises want to apply for Eximbank project loan assistance or can afford delay incident to project loan treatment. Thus a U.S. component supplier to a big project may lose out in a particular case. This area clearly seems to need further attention.

Lack of financing for subsuppliers where the prime supplier uses other than Eximbank funds: There is no adequate program for assisting U.S. capital goods manufacturers who supply equipment to foreign projects as "subsuppliers" and

who participate pari passu in supplier credits negotiated by the prime supplier when the prime himself does not obtain Eximbank assistance. The problem is particularly acute for the small company. We are told that the Bank will consider such cases and where appropriate attempt to work out a means of financing one or more subsuppliers. However, there is no appreciable number of such cases being handled.

Effectve company participation requirement: Understandably, the Eximbank has always followed the policy of insisting that the U.S. exporter with respect to an export credit guaranteed or extended by Eximbank take a certain percentage of the deal. This is currently 15 percent of the financed portion of the transaction. Small- and medium-sized companies, particularly where they are dealing with large, expensive projects, have only a limited number of 15 percents in their capital structure. Very early in the game a company becomes committed to the point where it can no longer participate. We understand that commercial banks operating under the Eximbank program have, with the Bank's approval, become somewhat more willing to discount these 15 percents in recent months but this remains a serious problem for many companies.

Relationship of financing to capitalization of company: We are informed that in at least some instances, the Export-Import Bank has not offered financing even where local bank guarantees have been provided on grounds that the customer is undercapitalized. This seems unreasonable where local guarantees will be provided, especially since adequate capitalization may be a problem in underdeveloped countries even where the company is a fairly good credit risk. It is true that Eximbank has become somewhat more liberal in that they have reduced the equity requirement on project loans and purportedly will look at the credit record of the borrower where smaller exporter credits are involved.

Nonetheless, it is the feeling of some companies that the denial of financing even where local guarantees are available because of a company's debt-equity ratio has sometimes reflected an unduly restrictive attitude on the part of Eximbank.

Financing of sales to government-owned oil monopolies: It was formerly the policy of Eximbank automatically to preclude government oil monopolies abroad from direct project loans. We were informed that this policy was modified in 1964 and that applications for such loans would be considered. However, it remains to be seen how this modification in policy will influence future Bank activity in this area. It might be noted in this regard that in 1961 the Bank announced that it was reversing its longstanding policy of denying applications for exporter credits involving sales of equipment to government-owned petroleum monopolies. It is our understanding that the Bank has in fact financed very few such transactions and important sales have been obtained by firms in western Europe, in some cases by affiliates of U.S. firms who could have taken the order in their U.S. plant had financing been available.

This is an example of an announced change in policy, but with very little administrative implementation.

Financing of sales of printing and broadcasting equipment: We understand that all sales of printing and broadcasting equipment in which Eximbank is asked to participate must be cleared with Eximbank even when the amount involved is within the discretionary approval limits of the commercial bank. Eximbank's concern is that these facilities may be used for propaganda against the United States. With due deference to U.S. policy in this area, we are informed that the investigative procedure may be too long (frequently 4 to 8 weeks) and may result in embarrassment and loss of business.

New programs of Eximbank warrant close observation: There are certain new programs which the Bank has undertaken in recent months which are relatively new and therefore are difficult to evaluate at the present time. It would be useful to comment on these both as an example of the efforts of the Bank to meet exporter needs and as representing programs which should receive more than the normal attention in coming months to determine the extent of effective implementation. We refer to the following:

1. Eximbank has indicated its willingness to guarantee local costs within certain limitations. How will this be administered? The issue has become important because foreign consortia and other lenders are concluding certain local costs as a part of their sales and financing package.

2. Although Eximbank has indicated it will guarantee payments by a foreign customer under a service contract and has offered assistance in several instances, no such guarantee has yet been issued to our knowledge. The extent of implementation remains to be seen. Will it be dynamic?

Credit guarantees on leased equipment: The Bank is now guaranteeing the payments for use of leased equipment as well as equipment on exhibition at trade fairs or on consignment abroad. Although the first such guarantee has now been issued, it remains to be seen how this program will develop.

MAPI spot check of problem areas: Having ticked off these gaps in Eximbank programs, I think the committee might be interested in a survey which we took on very short notice at the request of Government in connection with deliberations which have been taking place within the executive department regarding export credit facilities. On January 27, 1965, we sent the following telegram to 60 producers of capital goods and allied industrial equipment:

"Bearing in mind that present Eximbank policy may preclude at a given time export credit assistance for particular countries or particular industries or on sufficiently liberal terms, for example, as to interest rates and length of maturities, can you respond as follows: In total dollar valume in 1964, how much business did your company lose because unavailability export credit assistance in situations like those described? Can you furnish specific examples of such business losses indicating country and customer industry? For 1965, can you estimate potential new export business which would be generated by availability credit assistance in these types of cases?"

The numerical results of the survey are as follows:

Companies gave estimates for 1964 and/or 1965	31
28 companies reported orders lost in 1964 of $102,000,000.	
22 companies estimated that 1965 orders totaling $152,000,000 may be lost.	
Companies reported that more liberal financing would make no difference	9
Companies were unable to provide estimates but felt improved facilities were necessary	7
Companies did not respond	13
Companies, total	60

In order to be entirely fair to the present facilities in evaluating these results, we should bear these points in mind. The number and distribution of companies do not of course constitute a scientific sample; numerical answers to the questions are necessarily in the form of estimates; and there must be an imputation by the company of the reason for lost orders.

On the other hand, we believe that this spot survey is clear evidence of a substantial dollar volume of export business that would accrue to U.S. companies if the Eximbank were to (1) liberalize the country restrictions, at least in certain cases, and (2) make the terms (maturities and interest rates) of loans more competitive. It is my understanding that similar test surveys were conducted by other organizations.

The administrative philosophy of Eximbank: Frequently in administering a complex program, particularly where a large measure of discretion is involved, administrative philosophy and concept of mission are more important than definitive rules.

If we were to characterize the overall philosophy of the Bank—its administrative approach to its job—we think it is fair to say that these are the governing criteria in our opinion:

(1) First, the Bank is conservative in its overall philosophy and approach. Bankers, by tradition, are conservative. This conservatism shows through in several respects. The Bank has a very austere and conservative view of the financial performance which it should achieve in terms of avoidance of losses.

It has been subject to some criticism over the years on the grounds that it is so conservative and so wary of risk, as proved by its loss record and by its earning performance, that it is inhibited in performing a completely viable function.

In this respect, in deference to the Bank, I think that one of the issues which should be settled in Government, either by legislation or administrative directive, is the extent to which the Bank should enlarge its exposure of risk by takink on more projects in areas of the world which are developing or where the risks are greater than in some of the more sophisticated, highly advanced areas.

In other words, should the Bank deliberately expand its area of risk in order to improve the competitive position of the U.S. exporting industry and at the same time assume a more dynamic role in carrying out broad national objectives?

In this connection, one of the most important roles which must be performed is to get American business in on the early stages of development of particular projects and particular areas of the world.

The follow-on business becomes extensive ordinarily. So some rethinking of the primary function of the Bank beyond its present and traditional view of its role may be advisable.

This is not necessarily a criticism of the Bank; the issue is whether a higher authority in Government should consider remolding the mission of the Bank and thus reshape its administrative philosophy. This rethinking, I gather, is implicit in the bill before this committee.

(2) In the international selling field, time is of the essence and, therefore, any procedure which accelerates final decision should be encouraged. Aside from the question of time itself, within Eximbank there is evidence of a certain amount of rigidity with respect to technique.

This shows through where basic policy changes are made but are slow in implementation. When Eximbank is compelled by circumstances or persuaded by higher Government authority to adopt a new policy or procedure which is untraditional and about which the Bank apparently has concern or reservations, implementation seems to be slow.

This is illustrated by previous references to action under new policies regarding service and leasing contracts, transactions involving Government-owned oil monopolies, etc.

(3) In sum, we think it can be fairly said that the Bank, in its administrative philosophy, has been very conservative, has made changes—many of them constructive—but these have been forthcoming rather slowly and their implementation, at least in certain cases, is less than dynamic.

These are difficult ideas to express, because if they are overstated they reflect unfairly on the Bank's management, and we have no wish to do so. On the other hand, if they are not articulated in some way and if we do not address ourselves to the overall philosophy, the overall management approach, a basic aspect of this problem is overlooked.

Suffice it to say in conclusion that in our judgment more flexibility, more innovation, a broader view of the role of the Bank in international commerce, a little more courage with respect to exposure of risk, a little more sensitivity to the demands of speed and flexibility, would lead the Bank to an even greater role than it has fulfilled over many years.

And that role, as we have described it and as we are pleased to acknowledge it, has been an extraordinarily important one. It has been my experience in business that business, families, and communities or areas of the country, the difference between the truly dynamic individual or entity, and the one which falls a bit behind, more frequently than not turns on a question of approach, philosophy, and determination.

It is difficult to inject this additional ingredient by directive or by statute but it is a thoroughly vital ingredient. To some degree, it is lacking at Eximbank.

Implementation of decisions regarding possible modification of the Export-Import Bank program: We have previously indicated that the institute does not appear before this committee with any firm view regarding the mechanics for modification of the Eximbank approach. This basic judgment we should like to leave to the committee, which I am sure will consult with high-level Government officials, including the Secretaries of Treasury, Commerce, and perhaps the President, beyond consultation with the distinguished Chairman of the Export-Import Bank.

We think high-level consultation here is very much in order because this is a high-level problem, and it is a part of our balance-of-payments situation which is receiving attention by President Johnson personally.

If the committee should decide that the specific bill as it affects export credit facilities need not or should not be enacted, it might wish to consider a joint resolution which would express the sense of the Congress with regard to the need for stepping up our Government contribution and reshaping our Government programs in those areas of need which Chairman Magnuson identified in his press release, and any additional areas such as those which we have discussed in this statement.

Whether such a joint resolution is considered or not, we feel strongly that a general understanding with the Export-Import Bank as to certain new programs or certain new approaches will not be sufficient to accomplish a dynamic and significant change in respect to the problems to which we have referred.

An instruction drawn with a fairly extensive degree of specificity is necessary. In making this comment and suggestion I do not wish to imply that a general understanding would not be sympathetically entered into by the Chairman of the Export-Import Bank and his Board.

We are dealing, however, with an area which by its very nature involves a wide range of judgment and discretion. In order to change basic approach, in order to enlarge mission, in order to insure followthrough, the understanding must be spelled out in very clear and unambiguous terms. Ideally, such a directive or instruction should issue from the White House.

Finally, we would suggest that in the event decisions are made and a definitive document is drawn either legislatively or administratively, then some system of review should be established.

In this connection, perhaps a mixed Government and industry committee might be appointed to consult periodically with the Export-Import Bank regarding progress on some of the new approaches which might be embodied in the document to which we have referred.

This kind of interchange is necessary not only to assist the Export-Import Bank in its implementation, but also to insure that the Export-Import Bank is kept informed about the competitive facts of life faced by U.S. exporters.

In making this last suggestion, I should acknowledge the existence of an outstanding Advisory Committee of the Export-Import Bank. I have no wish to reflect on this Committee or to suggest that the Committee which I have recommended be set up as a substitute for the Committee now in existence. I think, however, that they really serve two different functions.

The present Committee consults with the Chairman on broad questions, and I would favor the constitution of this new Committee on what might be called an operating level. Their functions would be different and the operating side is, in my opinion, probably not being given sufficient attention in the consultative mechanisms of the Bank at the present time.

Proposed new programs under title I: Trade Development Corps. Turning our attention to title I of the bill, we are interested in the proposal to organize a Trade Development Corps. We feel that such a corps merits consideration if it indeed can accomplish the objective of improving U.S. commercial representation abroad.

The extent to which this objective can be attained depends primarily upon the ability to induce high-quality personnel with broad international experience to serve in such posts.

For this reason and because successful recruitment can be a very difficult task, we urge that particular consideration should be given to this aspect of the problem before any final action is taken.

Other programs under title I: Beyond this provision, we are skeptical concerning the alleged benefits from the establishment of cooperative industrial development projects and financial assistance for the establishment of sales and service centers in less developed countries by private organizations.

With the assumption of office by Mr. Connor as Secretary of Commerce, the Department is no doubt reviewing its various programs designed to increase U.S. exports including its export expansion program, trade missions and trade fairs, the development and dissemination of foreign commercial intelligence to the U.S. business community, et cetera.

We feel that emphasis might well be placed upon such a review with the objective of improving these programs before considering additional mechanisms which may in part duplicate existing functions or raise new problems.

More specifically, these new programs may involve some cooperation among competitive organizations which could violate the spirit if not the letter of our antitrust laws. In addition, certain functions proposed would appear to compete with private organizations which carry on programs comparable to those suggested for Government support.

The latter problem would appear to be particularly applicable to the proposal for cooperative industrial export development projects. Indeed, it would seem that one sector of private industry might well be subsidized in direct competition with another sector under this program.

Comments on certain overall aspects of foreign trade: One aspect of title I prompts us to offer some general observations on foreign trade and U.S. international economic and commercial policy.

Artificial policy line between developed and developing countries: We continue to be disturbed at the growing tendency on the part of Government

artificially to carve the world into developed and underdeveloped for purposes of international economic and commercial policy.

This is again reflected in a portion of the S. 558 bill—that is, that part dealing with the establishment of sales and service centers in "other than a country which is determined by the Secretary to be fully developed."

While the promotion of friendly relations with the less developed regions is a highly important aspect of U.S. foreign policy, we should not lose sight of the need for a total integrated policy.

In the development of foreign economic policy over the last 10 to 15 years, the United States has attempted to carve up the world as it laid down specific lines of policy. The Marshall plan, for example, directed focus on Western Europe. At the same time it drew our attention away from Latin America.

There is grave danger that as the United States now focuses on developing countries our attention will be drawn away from the more developed regions of the world where our relationship problems may for entirely different reasons become equally if not more significant in the long run.

This trend toward artificial lines of demarcation in world trade is also reflected in the foreign earnings provisions of the 1962 Revenue Act, bills to provide an investment tax credit for investment in developing countries only, in the Interest Equalization Tax Act, and even in the new voluntary program for restraint on investment abroad being administered by the Department of Commerce.

Possible adverse effects of FRB guidelines: Reference to President Johnson's current program for improvement in the balance-of-payments position of the United States prompts us to make a comment to the committee with respect to a possible boomerang effect of one aspect of the program which involves exporter credits.

The Federal Reserve Board has issued a set of guidelines for commercial banks to follow in compliance with the President's program to improve our balance-of-payments position. The main thrust of the guidelines is to place a limit on U.S. bank loans in the foreign area.

In conforming to the ceiling limitation, private banks are required to include in the calculation U.S. export credits except where the transaction involves participation by the Export-Import Bank, that Bank having obtained an exception to the guidelines.

It is possible that insofar as financing of U.S. exports are concerned, this rule may reduce in the net the total participation by private U.S. banks in exporter credit transactions, carrying with it a negative impact on exports which, of course, help support our balance of payments.

In theory, we are sure the Federal Reserve Board wishes to encourage exporter credits and to squeeze out under the guideline rule foreign loans of other types. As a practical matter, however, as just indicated, the net result may be a total reduction by private banks in the exporter credit field.

There is another aspect to the rule which should be underlined. In the last few years we have come a long way in this country toward achieving a much more extensive participation by the private banking community in export credit activity. It is true that an important part of this participation involves joint arrangements with the Export-Import Bank.

On the other hand, part of it involves independent activity by private banks, and as a country we should certainly encourage more of that activity.

We are afraid that the Federal Reserve guideline is in conflict with this favorable trend of receptivity and activity on the part of the banks in the exporter credit field.

At the minimum, the effect of the guidelines should be carefully observed by the Federal Reserve System and perhaps by this committee. If our instinct is correct, the guidelines may be subject to change.

Relationship between exports and investment abroad: We also wish to reemphasize strongly our feeling that the question of exports cannot be considered in a vacuum. Exports are closely related to the entire foreign operations of the American business community. Exports, foreign licensing, subcontracting to foreign companies and investment abroad, are all closely related and cannot be artifically separated.

In this connection, there is a clearly beneficial relationship between U.S. direct investments abroad and export of U.S. manufactured products. This is a point which many in government and academic circles do not seem to understand or choose to downgrade.

Investment abroad too often appears for policy purposes to be considered as an alternative to exports when more often than not the former tends to support the latter.

The most recent evidence of this is spelled out in a MAPI study, "A Capsule View of the Scope, Effect, and Balance-of-Payments Implications of U.S. Direct Manufacturing Investments Abroad" which relies entirely on Government data. Copies of this analysis are being made available to the committee for inclusion in the record or for background study as the chairman wishes.

In closing we want to make one point crystal clear which this statement has emphasized previously. But it deserves to be restated. No one with any sense of responsibility or appreciation for a job well done in an overall sense should appear before this committee and leave an impression of broad-scale, overall, and captious criticism of the Export-Import Bank or the able people who are responsible for its operations. We do not wish to leave that impression.

We do feel, however, that reasonable men may differ on certain aspects of a set of facts or, more particularly in this case, on the extent to which there are gaps in a program which, in an overall sense, is concededly vital.

Moreover, we think that reasonable men may differ as to whether or not the concept of the mission of the Export-Import Bank and the administrative philosophy involved in implementing the mission might not be subject to change to some degree.

It is in these areas of identification of gaps, concept of mission, and administrative approach, that our remarks are primarily addressed.

Finally, we have urged that if the mission of the Bank should be enlarged or if a new facility should be established to discharge an additional mission, if the administrative philosophy should be modified, if some or all of the gaps which we have identified should be dealt with, definitive guidelines and instructions should issue from a high level in Government, and the implementation of this new program should be periodically reviewed.

This concludes MAPI and CTA testimony. If we can be of further service to the committee, the Institute officers and staff will be privileged to make themselves available.

INTERNATIONAL OPERATIONS—A CAPSULE VIEW OF THE SCOPE, EFFECT, AND BALANCE-OF-PAYMENTS IMPLICATIONS OF U.S. DIRECT MANUFACTURING INVESTMENTS ABROAD

INTRODUCTION

Despite the impressive performance of the U.S. economy and a continuing substantial trade surplus, the U.S. dollar has been subject to renewed attacks in recent weeks.

This is, of course, in major part due to U.S. commitments abroad in the form of military and economic aid and to the continuing and substantial accrual of dollar holdings by foreign governments.

In the light of the present imbalance in the U.S. balance of payments, no doubt we can again look forward to the reopening of a Pandora's box of administrative and legislative mechanisms in an attempt to cushion the impact of these imbalances.

Although there are a number of alternative courses of action, unfortunately some type of control—either by the United States or foreign nations—on U.S. direct private investment abroad will probably be among those items on the priority list for consideration.

This is notwithstanding the fact that both from the standpont of public policy and commercial consideration there are positive net advantages to encouraging such investment.

In brief:

1. The effect of discouraging direct private investment abroad would be to worsen rather than to improve our balance of payments over the longer run.

2. Direct private investment overseas in many instances to maintain domestic employment at a higher level than would be the case without such investment and, in other instances, failure to invest abroad will not save domestic employment but will result in loss of markets to foreign competitors.

3. Since timing is frequently crucial to the success of any business venture, even the temporary prohibition of, or limitation on, private investment abroad could seriously disrupt established business plans and by such disruption adversely affect the competitive strength of domestic companies involved.

4. The solution, therefore, is not to discurage foreign investment but rather to encourage domestic investment by making the U.S. economy more competitive.

In an earlier study, "Private Investment Abroal—Public Policy and Commercial Considerations, Federal Tax Implications" (March 1961), the Institute set forth these views based on the data then available.

They are even more strongly documented today with the release of official data for 1963. Accordingly, it is timely again to call the attention of the Federal Government to the constructive role played by U.S. direct private investment abroad.

This presentation undertakes this task, giving primary attention to the role of manufacturing investments.

OBJECTIVE OF STUDY

The huge increase in U.S. manufacturing investments abroad within the past decade reflects the rapidly growing role played by American industry in world markets.

While considerable information has been made available indicating the nature and impact of these investments, there has been to our knowledge no effort to provide such information in a single comprehensive summary.

It is the purpose of the present study to fill this gap, reviewing in broad terms the scope and effect of direct foreign investments—primarily manufacturing investments—and giving specific attention to their impact on the U.S. payments balance and the general competitiveness of U.S. manufacturers.

The focus is on the years 1957—the first year for which much of the data are available—and 1963, and the extent to which the pattern of investment activities has changed in the interim.

U.S. INVESTMENTS IN MANUFACTURING ABROAD

The book value of U.S. investments in all manufacturing facilities abroad rose from $7.9 billion in 1957 to $14.9 billion in 1963, an increase of almost 90 percent. Net new investments (i.e., additions to book value) in overseas manufacturing facilities which totaled approximately $950 million in 1957 were some $1,600 million in 1963.

Minor conceptual differences between two Commerce Department series relating to U.S. investment activity abroad and certain bookkeeping adjustments have resulted in small differences between retained profits plus funds from the United States on the one hand and net new investments on the other.

The value of U.S. investments in machinery facilities abroad totaled $1.7 billion in 1957 and $3 billion in 1963, an increase of more than three-fourths. Net new investments in foreign machinery facilities averaged $188 million in 1958–59 and totaled $271 million in 1963.

RETAINED PROFITS AND OTHER SOURCES OF FINANCING FOR FOREIGN MANUFACTURING INVESTMENTS

Retained profits of manufacturing investments abroad increased from $525 million in 1957 to $644 million in 1962. They accounted for 55 percent of net new investment in 1957 and 53 percent in 1962.

Funds from the United States accounted for the remainder totaling $425 and $571 million in 1957 and 1962, respectively.

In 1963, however, retained profits rose sharply to $1,063 million and accounted for 66 percent of net new investment as funds from the United States declined to $599 million.

There are no data breaking down U.S. capital outflows as between capital invested in new enterprises and investments in existing establishments. However, certain other data are at least suggestive in this connection.

As already noted, new capital flowing from the United States into manufacturing enterprises abroad rose substantially through 1957–62 from $425 to $571 million. Remittances to the United States also grew throughout this period, rising from $471 million in 1957 to $871 million in 1962.

The increase in the outflow of U.S. funds at the same time that remittances were increasing suggests that a substantial portion of this new capital was flowing into new or recently established enterprises while remittances were flowing back from more "seasoned" establishments.

Interestingly, however, new funds flowing from the United States declined in 1963 while plant and equipment outlays increased and net working capital rose

sharply. As a consequence, a large portion of profits was reinvested and income remittances to the United States declined.

Thus, even though earnings which had risen from $996 million in 1957 to $1,585 million in 1962 rose further to $1,768 million in 1963, remittances declined in 1963 to $705 from $871 million in 1962.

The decline in the flow of new capital from this country combined with a sharp rise in capital requirements, particularly working capital requirements, suggests that, in contrast to earlier years, much of the increase in investment activity in 1963 was related to existing plants which were becoming "seasoned" and relatively less to the establishment of new operations.

Whether this presages a leveling out or declining trend in new U.S. manufacturing establishments abroad remains to be seen.

It would be noted, finally, while there has been considerable variation both in the supply of new U.S. capital to operating affiliates and dividend remittances from those affiliates during 1957–63, remittances have exceeded outflows throughout this entire period.

SOURCES OF FINANCING

Internal sources of capital available to companies include, of course, depreciation in addition to retained profits. External sources may be broken down into funds obtained from the United States and capital obtained abroad.

U.S. manufacturing companies have resorted to external financing to meet almost one-half of their foreign manufacturing requirements during 1957–63.

Total sources of financing for direct manufacturing investments abroad were $2,067 million in 1957, $3,135 million in 1962, and $4,059 million in 1963.

Forty-nine percent of the financing ($1,003 million) was external in 1957, 47 percent ($1,479 million) in 1962, and 45 percent ($1,826 million) in 1963. U.S. capital represented 42 percent ($425 million), 39 percent ($571 million), and 31 percent ($559 million) of external financing in 1957, 1962, and 1963, respectively.

As to the breakdown of internal financing, depreciation allowances gained somewhat in importance between 1957 and 1963 despite the rapid increase in total financial resources, growing from 26 to 29 percent of total sources, while retained earnings rose slightly from 25 to 26 percent.

The increased importance of depreciation can be explained by the rapid growth in depreciable assets during 1957–63 and also by liberal tax depreciation which has encouraged the adoption of accelerated depreciation practices.

Accelerated depreciation, of course, leads to a more rapid accrual of allowances when corporate outlays are expanding.

ADEQUACY OF INTERNAL FINANCING

Despite the increase in depreciation allowances noted above, internal financing by direct manufacturing investments abroad has not generally been adequate to cover outlays for plant and equipment.

Internal funds covered only 79 percent of the cost of plant and equipment in 1957 (which totaled $1,347 million) and 85 percent of such costs in 1962 (which totaled $1,347 million).

However, there was a sharp rise in the percentage in 1963 to 104 percent (of $2,153 million). This may reflect the fact, as already noted, that less capital went into new manufacturing establishments abroad in 1963 and a larger portion of foreign manufacturing establishments was "seasoned" so that foreign manufacturing investments in the aggregate were better able to finance their capital requirements from their own internal sources.

SALES BY FOREIGN MANUFACTURING INVESTMENTS

Sales by U.S. direct manufacturing investments abroad totaled $18,331 million in 1957 or $2.32 per dollar of book value and $31,317 million in 1963 or $2.10 per dollar of book value.

Of these sales, exports to the United States totaled $1,093 million in 1957 and only $1,092 million 6 years later in 1963. This slight decline in sales to the United States while total foreign sales increased by more than 70 percent strongly suggests that there has not been an adverse effect on domestic sales from U.S. manufacturing investments abroad.

On the contrary, the net effect has been favorable insofar as U.S. exports have benefited as noted below.

Machinery sales by U.S. direct investment abroad totaled $3,950 million in 1957 or $2.32 per dollar of book value, and $6,531 million in 1963 or $2.18 per dollar of book value. Of these sales, machinery exports to the United States were $93 million in 1957 and $117 million in 1963.

The decline in sales per dollar of book value for both all manufacturing and machinery facilities suggests that new investments have proceeded at such an accelerated pace since 1957 that a larger proportion of them have not yet become fully productive.

U.S. TRADE WITH FOREIGN MANUFACTURING AFFILIATES

Estimated total exports (based on an expansion of sample returns) by U.S. manufacturing companies to foreign manufacturing affiliates were $3,221 million in 1963; in addition, U.S. manufacturers shipped $1,221 million to foreign distributing affiliates.

These figures were actually understated to some extent since many parent companies could not identify sales to affiliates by other than themselves. Of the $3,221 million in estimated sales to foreign manufacturing affiliates, shipments to machinery manufacturers were $871 million.

A breakdown of this same total by type of export shows that $1,252 million in shipments was for processing or assembly, $1,086 million was for resale without further manufacture, $102 million comprised capital equipment, $33 million was other exports by the parent company, $530 million was shipments by other than the parent company (although this figure understated for the reason noted above), and $219 million represented sales by affiliates on a commission basis with shipments going directly to affiliate customers.

The fact that more than one-third of total sales comprised "resale without further manufacture" is indicative of the beneficial effects of foreign manufacturing investments in promoting export sales by parent companies to unrelated companies of goods presumably not manufactured by the affiliates.

This is in addition to the large volume of sales generated as the result of the affiliates' own direct requirements.

Of the $1,221 million in U.S. manufacturers' sales to foreign distributing affiliates, $77 million was for processing or assembly, $928 million was for resale without manufacture, $42 million was capital equipment, $1 million represented other exports by the parent, $60 million was exports by other than the parent company (again this figure is understated), and $173 million represented sales by foreign affiliates on a commission basis with shipments going directly to affiliate customers.

Exports to foreign manufacturing affiliates were the equivalent of some 9 percent of total sales by these affiliates in 1963.

Shipments to machinery manufacturing affiliates were the equivalent of 13 percent of sales by those affiliates.

Finally, exports to affiliates abroad by U.S. manufacturing companies totaled one-third of total exports of selected manufactured and semimanufactured products in 1963. For purposes of comparison, this selection was designed to cover a range of goods roughly comparable with those produced by the foreign affiliates.

EMPLOYMENT BY FOREIGN MANUFACTURING FACILITIES

Unfortunately, there are no current figures showing the volume of employment generated by foreign manufacturing investments.

The latest figures were developed in a Commerce Department census conducted for the year 1957. Companies responding to the census provided on a voluntary basis data on the number of persons they employed abroad, including a breakdown of employees between supervisory, professional and technical personnel on the one hand and "other personnel" on the other hand.

Reporting companies employed a total of 1,942,000 persons. Based on wage data which were required from all respondent companies, the total number of persons employed by all direct foreign investments in 1957 was estimated at 3,200,000.

Of the 1,942,000 employees reported, 1,053,000, or 54 percent, were in the manufacturing sector.

Of supervisory, professional and technical personnel, 14,000, or 8 percent, were sent from the United States. Of other employees, only one out of every 250 were sent from the United States.

No comprehensive data are available indicating the impact on U.S. employment of direct investment abroad, although rough estimates were attempted during the hearings on the Revenue Act of 1962.

DIRECT FOREIGN INVESTMENTS AND THE U.S. BALANCE OF PAYMENTS

In discussing the balance-of-payments impact of investments abroad, we shall consider the impact of direct foreign investment generally, and then turn our attention more specifically to the effects of manufacturing investments based on recently published data.

First, it is essential to distinguish, in the balance-of-payments accounts, between direct foreign investment capital and other capital outflows, both private and governmental.

In the Government's balance-of-payments accounts, direct foreign investment refers to capital funds which are invested directly in plants and factories overseas.

An investment is typically considered a direct investment where a U.S. company holds equity of 10 percent or greater although there are exceptions to this rule.

Private capital may also flow abroad to be held in the form of gold or bank deposits, or to be invested in foreign securities (other private investment).

Where a company holds equity of less than 10 percent the investment is treated as a portfolio investment and included under other private investment.

Finally, the bulk of Government capital outflows include Government credits for the disposal of agricultural products overseas and other credits to foreign countries.

Analysis of each of these accounts separately demonstrates clearly the extent to which U.S. direct foreign investments have provided a favorable element in this country's balance of payments.

DIRECT FOREIGN INVESTMENT

Earnings returned to the United States from direct private investment overseas have exceeded net capital outflows into such investments in every year since 1950. Since 1957, they have, in the aggregate, exceeded outflows by some $67 billion.

OTHER PRIVATE INVESTMENT

Looking at other private investment, repatriated earnings have exceeded net capital outflows in only 1 year since 1950, and the aggregate deficit since 1957 has been about $8.6 billion.

GOVERNMENT CAPITAL

Repatriated earnings on U.S. Government capital have been exceeded by net governmental capital outflows in every year since 1955. The aggregate deficit since 1957 has been $4.5 billion.

It should be pointed out, in fairness, that this includes Government credits for the disposal of agricultural products overseas, and these earn no interest. At the same time it excludes Government grants which totaled $4.4 billion in 1963 alone including $2.7 billion of nonmilitary grants.

Thus, confining our attention to this sector of our balance-of-payments accounts, we find that there was a net deficit of $6.4 billion during 1957–63 as a result of net capital outflows into foreign investments in excess of income from such investments.

Were it not for a surplus of approximately $6.7 billion from direct private investments abroad, a deficit of twice that amount would have accrued during this period.

EFFECT ON PAYMENTS BALANCE OF TRANSACTIONS WITH MANUFACTURING AFFILIATES

Giving more specific attention to the manufacturing sector, and relying on recently published data of the U.S. Department of Commerce covering the year 1963, we find that the balance-of-payments impact on U.S. transactions with foreign manufacturing affiliates of U.S. companies were strongly favorable.

U.S. receipts from affiliates totaled $4,227 million including the $3,221 million in merchandise exports mentioned earlier, $660 million in dividends, interest, and branch profits, and $346 million in royalties and fees.

Payments to the same affiliates totaled only $1,808 million, including $1,092 million in merchandise imports and $716 million in net capital outflows. The resulting surplus was $2,419 million.

CONCLUSION

From the data presented, it is obvious that the net effect of U.S. direct private investment abroad is favorable to the U.S. balance of payments. Not only is this the case in the long run—which is generally admitted—but it has been true for the recent period during which we have been concerned over our deficits.

The facts stand out as follows:

1. While there has been considerable variation both in the supply of new U.S. capital to operating affiliates and dividend remittances from those affiliates during 1957–63, remittances have exceeded outflows throughout this entire period.

2. During the period 1957–63 when total foreign sales of U.S. direct manufacturing investments abroad increased by some 70 percent, there has been no increase in their sales to the United States and thus no adverse effect on domestic sales from U.S. manufacturing investments abroad.

3. Foreign manufacturing and distributing affiliates of U.S. manufacturing companies accounted for $4,442 million in exports from the United States in 1963.

4. Earnings returned to the United States from all direct private investment overseas have exceeded net capital outflows into such investments in every year since 1950. Since 1957, they have, in the aggregate, exceeded outflows by some $6.7 billion.

We submit that to restrict—or to permit to be restricted—U.S. investment abroad will not only "kill the goose that lays the golden eggs," but will serve to deplete our store of "golden eggs" as well.

(NOTE.—This summary was undertaken after a review of various U.S. Commerce Department publications for pertinent investment data and discussions with officials in the Commerce Department's Balance of Payments Division, the U.S. Bureau of Census, and the Bureau of Labor Statistics.)

Mr. STEWART. I would like to comment on a few of the observations and questions that were asked this morning. I think it might be helpful to those members of the committee who inquired of certain of the witnesses.

Senator Dominick, through a question, made a point or pursued a point, mainly, is credit financing crucial in the international trade field? Obviously a good point to examine.

Our experience is that it is quite crucial, that many important capital goods sales, which is the area of industry in which I am active, turn primarily on credit financing. Now that does not mean that there are not other factors involved. But, I think we will find that over the years our friends, as well as those countries not so friendly to the United States technologically, have caught up or are in the process of catching up, and I think it is academic to spend a great deal of time on the question as to whether or not credit financing is a crucial element in the picture that we are addressing today.

The same Senator also inquired about the position of the industries addressing the committee this morning in terms of their advance or slippage in their international trade position.

I will turn over to your staff a bulletin, No. 4,004, of the institute, which shows capital goods supports in relation to the capital goods supports of all of the principal producing countries of the world. And in brief, I might call your attention to the fact that this country's share of machinery markets has been slipping gradually for more than a decade. Now that does not mean that there are not increases in terms of annual dollar volume of supports from the United States. It does not mean, however, that relatively in terms of world markets, the position of the United States as to capital goods sup-

ports in competition with other major producing countries of the world, has been slipping gradually for a period of about a decade.

Now turning to another question that was asked this morning, do we need a change in the law? I think the more important question to examine is this one. Is there a sound basis for Export-Import or some other institution activating new programs or extending existing activities or procedures?

If the answer to that question is "Yes," as we believe it to be, then the subordinate question is, what should the mechanism to accomplish those changes?

I would like to concentrate on the gaps which we think exist in this area of support credit facilities and comment only secondarily on the question of mechanics.

I think also, as a practical matter, in my observation of Government, it is fair to say that it isn't sufficient to ask whether or not a law is necessary. Sometimes an administrative agency needs encouragement to move in a certain direction and it is possible that by virtue of merely holding this hearing and listening to the industry positions and having the Chairman of the Export-Import Bank hopefully come before you and address himself to those positions, that the encouragement might flow. It is also possible that there might be some other means of communication, so to speak, between the Congress and the executive department in this area.

I would like to comment on another point which was asked this morning regarding the issue of soundness. I believe one Senator made the comment that sound is sound. It isn't really quite that simple in this area. I would venture that Export-Import can and should meet the gaps that we will outline in this statement. That in so doing, they might enlarge their risks somewhat or they might enlarge their exposure to a degree, but, in my judgment, they would be more fully discharging their present charter without reference to new authority.

Moreover, they might even conceivably increase their profitability, which is on the order of $100 million net a year, even though they expanded their activities, relaxed their procedures and policies.

I think it is fair to say that if you examine the Bank's policies and procedures carefully, you can conclude that in view of the administrative philosophy of the Bank, which is discussed in some detail in my statement, as we view it, the Bank can go quite a distance toward more flexible and liberal procedures without being careless or irresponsible. This is not a matter of black and white, it is a matter of degree, and we think that there ought to be a larger degree of flexibility and under no circumstances does this necessarily entail a lack of wisdom or a lack of fiscal responsibility.

I think it is fair to say also, with reference to Senator Magnuson's opening remarks, which I have read, that as indicated previously, perhaps one of the most salutary benefits of this hearing is to open the subject up. I think perhaps the Bank policies, its procedures, its concepts of its mission, either by this committee or the other distinguished committee with which you personally are associated, might beneficially be subject to more frequent review.

The next point, it is very easy in this area to generalize. Some of the questions this morning were quite general when one starts talking about soundness, about fiscal responsibility, but, when you get down

to cases in this area, there is only one way to develop the facts and that is to be very, very specific.

Mr. Linder's position, I suspect—and this is partly answering your question—will run along these lines and obviously I have no charter to speak for him, but I have read his testimony before the Committee on Balance of Payments, and I think that taking off from his comments there, one could probably say that Mr. Linder would conclude that his present statutory authority is adequate and that he will conform to the requests of President Johnson to do everything possible to improve our support position, and that he will do so in a manner consistent with that objective, with the further understanding that there would be reasonable assurance of repayment, and that, in order to benefit our balance of payments, one has to achieve reasonable assurance of repayment or there will be no benefit to balance of payments.

Now, that is too general. We have to get down to specifics about the individual gaps which have been arrayed before this committee, and which are dealt with in detail in our statement. And then inquire of Export-Import Bank officials as to what they have been doing about those gaps, what more they can do about those gays within their present authority, and to the extent what more than that should be done, what additional authority is necessary.

Moreover, you will find in examining response to questions along these lines, that frequently the Export-Import Bank will answer to the effect that we do not have a closed mind on that point, we will look at cases along those lines, but then of course this should be followed by the inquiry as to how often you look at those cases and how many times have you taken certain actions along that line. I think you will find in some of the areas to which we refer in our statement, as for example the matter of treatment of services, and for example the matter of financing of oilfield equipment where nationally controlled monopoly is involved, and other situations which are ticked off in the statement, that although the policy may be somewhat modified, action has been quite limited and slow.

I would hope that if the Export-Import Bank does appear before this committee or submits a statement to it by writing, that the committee will ask the Bank to comment on each one of the gaps which we have arrayed and which others have identified, and comment on them not only in terms of whether they exist, but what policies they have which will address themselves to them and the extent to which those policies have in fact been implemented on a case-by-case basis and how many such actions have been taken.

I think it is fair to say, on another point, we spend a good deal of time talking about Government. I think it is fair to say that at the same time that the organization which I represent appears before this committee and asks for more flexibility, more dynamicism on the part of the Export-Import Bank, that some of that same ingredient might very well be applied by the private banking institutions of the United States. I think that the private banks have gone a long way in this direction. I think the insurance companies are also beginning to show more interest. But there is a further distance to go. And if we are going to get this job done, more has to be done by the private community as well as through Government institutions.

Questions were asked this morning as to terms offered abroad. Now terms, of course, include both rate and length of the agreement or length of the term. There is no question, none whatsoever, that a number of our foreign competitors, where necessary to get the business, are offering longer than 5-year terms, which is the normal policy of the Export-Import Bank. There is no question at all also that where it is necessary to get the business, some foreign institutions supporting financing will juggle rates in order to accomplish their objective.

If the staff would like to consult with our staff on some more specific information along this line, which we would prefer not to put in the record because it involves individual company information, we would be glad to make ourselves available. There is no question about the competition.

One further point in this context. The United States is a party to what is called the Berne Union and very frequently you will hear Government people say—not only representing Export-Import Bank, but also representing the Treasury Department—that the U.S. exporting industry is protected by the fact that there are agreements under the Berne Union against a credit wall.

I think it might be a useful inquiry to ascertain the legacies in that system. The reports which we get indicate that the Berne Union does not restrain its members completely, that there are loopholes, and that, indeed, many foreign countries are not particularly dissuaded from modification of terms contrary to what we consider to be the restraints of the Berne Union.

Now, if in fact this is true, and it ought to be carefully investigated, we have evidence that it is true, then we have to ask ourselves whether or not we can afford to continue to rely on this institution as a protection against an international credit wall or to put it another way, don't we as a country have to get competitive in this area with what is going on in the field.

Now, returning to my statement, which I will say only a word or two about——

Senator NEUBERGER. Mr. Stewart, I have been called for a vote on the floor, but I will be back. I could authorize a member of our staff to receive any further comments that you have. Your summation has been of great interest to me and if you would like to add some more to the record, why the staff member will be glad to receive it.

Mr. STEWART. I will take 2 minutes and say something briefly about the statement. Thank you for the opportunity to appear before the committee.

I will just say a word about the statement. I think it speaks for itself. I would like to call particular attention to certain sections of it so that those who read the record and follow my comments to date, might be led to spotcheck at least the full text of the document.

It will be noted that we proceed in the document on the basis of identifying gaps which in the view of capital goods exporters continue to exist in the Bank's programs. Certain of those gaps, including the first three listed—limitation on assistance to individual countries or areas, need to assure that terms are competitive, and financing terms limited by size of transaction, and failure to provide and advance commitments on project loan financing are in the areas identified by Senator Magnuson in his press release.

You will notice that we cover additional gaps, including relaxation of rigid requirements on certain project loans, as a goal; the preference that the Bank at times shows for project loans which discriminates against certain suppliers; the lack of financing for some suppliers where the prime supplier uses other than Export-Import Bank funds; and the effective company participation requirement, and certain others which I won't take the time to detail because they are covered in the document itself.

It will be noted further that we took a survey in January, which was a spotcheck concededly, that attempted to indicate the sales in dollar impact that might flow from changes in the Bank's procedures, which are rather generally stated in the inquiry, and the results of that survey are shown on page 13 of the mimeographed statement.

Mr. PERTSCHUK. What is your dollar estimate there?

Mr. STEWART. The dollar estimate was to the effect that for 28 companies, they reported orders lost in 1964, because of these gaps in available facilities, in the amount of $102 million, and they projected that unless those gaps were filled for 1965, there would be additional $152 million lost. They are not necessarily the same companies reporting in each case. And this, of course, was quite a limited sample. It was not a handpicked sample. We took two groups in the institute which are active in the international area, and canvassed them.

It will be noted further that we spend a considerable time beginning on page 13 on the administrative philosophy of the Bank, and I think that one who reads that will recognize the fact that we believe that even under present authority, the Bank can move to a more flexible and liberal position.

We suggest in connection with implementation, in line with my earlier comment, that whatever action is taken at the legislative level, whether it is one of informal communication rather than legislation, or whether a joint resolution of an expression of intent on the part of the Congress is chosen as a proper avenue of reproach or whether reliance is had primarily on the executive department, a very definitive understanding should be worked out with the Bank if changes are to be authorized or encouraged. It is not our judgment that the changes will come about promptly and dynamically unless there is a definite agreement, instruction or directive, as you please.

We are not terribly enthusiastic about title I. I leave the comment just at that point.

In conclusion, I would like to call attention to the fact that beginning on page 21, we go into a related subject, but one which has a definite bearing on export credit facilities and export credit availability, and it is one which I do commend to the interest and the investigation of the committee.

In the voluntary program recently inaugurated by President Johnson to arrest our balance-of-payments difficulty and to reverse it, one of the mechanisms that was developed was a set of Federal Reserve Board guidelines and one of those guidelines is designed to curb increases or indeed to turn around private bank participation in foreign loans. Now the question immediately comes up as to how export credits fit into that guideline.

Now the Export-Import Bank obtained an exception to that guideline, so that for transactions in which Export-Import participates,

the private bank need not include that transaction or those transactions in its calculation against the ceiling of 105 percent against 1964 loans outstanding.

It is our hunch, and I say hunch only because we have not studied it completely, we rather have the conviction that the result of this guideline will not only be as intended to force banks to squeeze their foreign loans not in the export or credit field, but the net effect is likely to be to restrict total private banking activity in the export or credit field. And we would suggest that this committee and that the Banking and Currency Committee and that the Federal Reserve Board might wish to reexamine that guideline in that respect because obviously, in the interest of balance of payments, this is no time to restrict the availability of export or credit activity on the part either of the Export-Import Bank or private banks.

Moreover, it would be hoped in line with my earlier comment about the private banking fraternity, that we would not want to take action which would discourage them from participating in export or credits even through Export-Import is not involved in an individual transaction.

I think that concludes my comments.

Mr. PERTSCHUK. Mr. Stewart, let me thank you on behalf of the committee, and we will recess until the reappearance of our chairman.

(Recess.)

Senator NEUBERGER. Back to work.

Mr. D. A. Ward, vice president of the Budd Co. Would you like to have your associate with you?

STATEMENT OF D. A. WARD, VICE PRESIDENT, THE BUDD CO., PHILADELPHIA, PA.; ACCOMPANIED BY MR. ESTRADA

Mr. WARD. Madam Chairman, in the interest of brevity, I will condense somewhat the statement that I have here, but we have a written statement which we will submit for the record.

Senator NEUBERGER. We will include it in the record.

Mr. WARD. I also would say that Mr. Porter, who spoke this morning on behalf of the Railway Progress Institute, outlined very clearly and very effectively the problem that is faced by railway equipment manufacturers in this area.

I will limit what I have to say only to citing two or three examples which may be useful to the committee in their deliberations.

During the past 10 years, our company's export sales amounted to approximately $69 million, of which $45.5 million were involved in sales of railway equipment. Now, in this connection, I am speaking only of our export sales and not our domestic sales.

The availability of financing for export sales of capital equipment, such as railway passenger cars, is one of the major factors in obtaining such business. For example, the company made export sales of railway passenger equipment to Brazil in 1957 when lines of Export-Import Bank credit were extended to the Santos a Jundiai Railroad—loan 764—and to the Brazilian National Railway Network under loan 810. From 1957 through 1961, this financing made possible export sales of railway equipment approximating $4 million a year.

When an exporter obtains an order for railway passenger equipment, the general impact is not limited to a local area but is wide-

spread and can be better understood when the following are taken into consideration:

Approximately 60 percent of the value of an order for this type of railway passenger cars is in the form of materials and equipment manufactured by and purchased from others.

In the case of our company, orders are placed for components and services with over 350 firms who are located in widely separated areas of the country, employing many thousands of wage earners.

In addition, domestic railroads and trucking companies benefit from the shipment of these materials ordered from suppliers.

The U.S. merchant fleet and U.S. ports benefit in the overseas shipment of the completed vehicle and/or components, and the aftereffect of an order of this nature often results in repeat business and orders for spare parts and services.

As an example, since 1956 our company has received orders for railway passenger equipment from the Brazilian Railroads totaling $20 million. In addition, due to the acceptance by the Brazilian Railways of Budd-designed railway passenger cars, approximately $6 million of additional materials and equipment was purchased directly from U.S. suppliers.

In our efforts to realize additional export sales, we have been handicapped by the absence of financing arrangements competitive with those being offered by foreign exporters. A case in point occurred in 1963 when our company's proposal to the Mexican National Railways for 40 rail diesel cars contained a plan of financing involving a 5-year term.

However, this plan was not competitive with the 10-year term offered by a European manufacturer. Subsequently, this contract for $7.5 million was awarded to the foreign manufacturer.

Now there was a reference this morning to what I think was this order, and I think the statement was made that it was lost to a Swiss company. We believe that, if we are talking about the same order, that it was won by a United Kingdom manufacturer. But that is of little consequence.

The fact was that it was lost to a foreign competitor.

Currently our company has been advised by our representative in another Latin American country that the same European manufacturer is offering similar attractive financing terms for the sale of railway passenger equipment. Unfortunately, we have not been able to obtain any financial arrangements from the United States which would meet the specified requirements of the potential customer.

Of immediate importance to our company is an order for railway passenger cars from a transportation authority in Brazil which has been let out for bids.

This inquiry contains a requirement for at least 10-year financing with a 3-year moratorium on loan amortization. Unless financing of this nature can be made available in the United States, this business will unquestionably go abroad, because there is financing available on this basis abroad at the present time.

We are confident that we can generate additional export sales of U.S. manufactured equipment if we can look forward to obtaining competitive financing of the kind outlined by the chairman of the Commerce Committee, Senator Magnuson, earlier in the proceedings.

He listed three qualifications: Special financing arrangements for export sales to countries experiencing balance-of-payments difficulties; competitive rates and terms for sales to rapidly developing countries whose markets are eagerly sought after by all exporter nations, and a workable mechanism for advance financing commitments to enable U.S. exporters to negotiate overseas contracts with their financing in hand.

We appreciate this opportunity to present our views, and we support the legislation which the committee is presently considering.

(The statement follows:)

STATEMENT BY D. A. WARD, VICE PRESIDENT, FINANCE, THE BUDD CO.

THE BUDD CO.—GENERALLY

The Budd Co., with headquarters in Philadelphia, Pa., is composed of six divisions, five of which manufacture a variety of products in the plastics, paper, instruments, railway equipment, and automotive fields, and provide services pertaining thereto. The sixth division, the international division, develops export sales of the various products and services made and furnished by our domestic divisions.

The Budd Co. has 11 plants in the United States.

In sales, the company is one of the 175 largest manufacturing firms in the country, and 1 of the 10 largest consumers of steel.

The company employs over 15,000 people and is 1 of the top 6 employers in the Greater Philadelphia area, and ranks second in Gary, Ind.

During 1964, Budd supplied parts for 28 of the 31 makes of cars produced in the United States and for 14 of the 15 leading trucks manufactured in this country.

In the railway field, the company is one of the three major U.S. manufacturers of railway passenger cars.

THE INTERNATIONAL DIVISION

The International Division of the Budd Co. develops export sales for the products and services of the domestic divisions and during 1964 carried on business in some 35 countries overseas.

Since the international division has the responsibility of developing and increasing export sales for our domestic products, we are particularly encouraged by our Government's recognition of the diffculties encountered by American companies in attempting to increase exports in the face of what has been called the export financing gap.

BUDD EXPORT SALES

During the past 10 years, our company's export sales amounted to approximately $69 million, of which $45.5 million involved sales of railway equipment. The availability of financing for export sales of capital equipment such as railway passenger cars, is one of the major factors in obtaining such business.

For example, the company made export sales of railway passenger equipment to Brazil when lines of Eximbank credit were extended to the Santos a Jundiai Railroad—loan 764—and to the R.F.F.S.A.—loan 810. From 1957 through 1961, this financing made possible export sales of railway equipment approximating $4 million a year.

EFFECT OF EXPORT SALES

When an exporter obtains an order for railway passenger equipment, the general impact is not limited to a local area but is widespread and can be better understood when the following are taken into consideration:

(*a*) Approximately 60 percent of the value of an order for this type of railway equipment is in the form of materials and equipment manufactured by and purchased from others.

(*b*) In the case of our company, orders are placed for components and services with over 350 firms who are located in widely separated areas of the country, employing many thousands of wage earners.

(*c*) Domestic railroads and trucking companies benefit from the shipment of material ordered from suppliers.

(*d*) The U.S. merchant fleet and U.S. ports benefit in the overseas shipment of the completed vehicle and/or components.

(*e*) The aftereffect of an order of this nature often results in repeat business and orders for spare parts and services. As an example, since 1956 our company has received orders for railway passenger equipment from the Brazilian railroads totaling $20 million. In addition, due to the acceptance by the Brazilian railways of Budd-designed railway passenger cars, approximately $6 million of additional materials and equipment was purchased directly from U.S. suppliers.

NEED FOR COMPETITIVE FINANCING

In our efforts to realize additional export sales, we have been handicapped by the absence of financing arrangements competitive with those being offered by foreign exporters. A case in point occurred in 1963, when our company's proposal to the Mexican National Railways for 40 RDC's contained a plan of financing involving a 5-year term. However, this plan was not competitive with the 10-year term offered by a European manufacturer. Subsequently, this contract for $7.5 million was awarded to the foreign manufacturer.

Currently our company has been advised by our representative in another Latin American country that the same European manufacturer is offering similar attractive financing terms for the sale of railway passenger equipment. Unfortunately, we have not been able to obtain any financial arrangements from the United States which would meet the specified requirements of the potential customer.

Of immediate importance to our company is a $40 million order for railway passenger cars from a transportation authority in Brazil which has been let out for bids. This inquiry contains a requirement for at least 10-year financing with a 3-year moratorium on loan amortization. Unless financing of this nature can be made available in the United States, this business will unquestionably go abroad.

MEANS OF INCREASING EXPORT SALES

We are confident that we can generate additional export sales of U.S. manufactured equipment if we can look forward to obtaining competitive financing of the kind outlined by the chairman of the Commerce Committee:

(1) Special financing arrangements for export sales to countries experiencing balance-of-payments difficulties.

(2) Competitive rates and terms for sales to rapidly developing countries whose markets are eagerly sought after by all exporter nations.

(3) A workable mechanism for advance financing commitments to enable U.S. exporters to negotiate overseas contracts with their financing in hand.

We appreciate the opportunity afforded us to present our views.

Senator NEUBERGER. Glad to have you here. How much does a passenger car cost?

Mr. WARD. It depends. There are passenger cars and passenger cars, but, say, $250,000, or something of that order of magnitude. It depends whether it is a car to be pulled as a part of a train, or whether a self-propelled car that has its own motive power attached and can operate either in trains or as a single vehicle. And there is a wide range of prices depending on the equipment.

Senator NEUBERGER. With the present status of passenger travel in this country, it looks as if most of your market will be abroad.

Mr. WARD. We are very hopeful, and we have reason to think that there is a renewed interest in rail passenger transportation in this country, not only in the area of urban mass transit, but in intercity transit, particularly here on the east coast, between Boston and Washington, and we are most interested and most encouraged by the developments that have taken place in recent past years on this subject, and we are looking forward to some progress being made here today.

Senator NEUBERGER. I think it is interesting to know the story of what happens to old railroad cars. We have had a lot of talk about

what happens to old automobiles when you try to get rid of them, but I have found Budd cars in Alaska, in the Yukon, northern Alberta, and got interested and used to photograph and take pictures of them. So they do have a long durability, I know.

Mr. WARD. They do, indeed. They may be described as old generals who don't die. They just fade away.

Senator NEUBERGER. I was amazed, because there is a real folklore connected with these railroad cars, and we found some in northern Alberta near the Arctic Circle, which was a great interest to me, and I carried on a correspondence and had a meeting with Mr. Budd as a result.

I thank you for your testimony. It augments what we have, and we are glad to have it for the record.

Mr. WARD. Thank you very much.

Mr. ESTRADA. Thank you.

[From the Railway Gazette, July 3, 1964]

MEXICAN RAILCAR AGREEMENT SIGNED

The financial agreement was recently countersigned in London with the support of Export Credits Guarantee Department whereby Kleinwort, Benson, the city merchant bankers, acting on behalf of a syndicate consisting of the Midland Bank and the Insurance Export Finance Co. have enabled payments for an order for 40 diesel railcars worth over £2½ million placed by Mexican National Railways with Metropolitan-Cammell Carriage & Wagon Co., Ltd., to be spread over 10 years.

This is the largest export order won by Metropolitan-Cammell for 9 years, and the largest order for diesel engines and transmission gear for export ever placed with Rolls-Royce, Ltd. Delivery of the first cars is due toward the end of 1965.

The order for 40 vehicles comprises 10 luxury-class air-conditioned coaches, 10 composite-class coaches and 20 first-class coaches. The specification conforms to modern railway standards and in engineering design and passenger comfort the luxury air-conditioned railcar will be comparable to the diesel pullman stock on British Railways, also built by Metro-Cammell.

SPECIFICATION

The specification follows closely the original design proposed by Metro-Cammell's projects engineer after several months of study in Mexico of the service conditions. International tenders had been invited from the recognized suppliers of this type of vehicle throughout the world. After a comparative study tenders were recalled, amongst other features Rolls-Royce engines and twin disk torque converters as proposed by Metro-Cammell were specified.

The brief specification is as follows:

All railcars, which will be 82 feet long, and hence to an American, rather than a European pattern, will be generally similar in appearance, although 10 will have full air conditioning, including electric heating. These 10 luxury cars will incorporate a buffet at one end with occasional seating and will be equipped with additional facilities for meal and refreshment service at seats, using individual clip-on trays. The open saloon of this luxury car will have rotatable seats, with reclining backs and adjustable footrests, for 48 passengers, and double-glazed windows enclosing fully adjustable venetian blinds.

A further 10 cars will be of composite class. These will have luxury seating for 20 passengers in the luxury class saloon, and reversible fully upholstered seating with arm and footrests for 48 passengers in the first-class portion.

The remaining 20 cars will contain first-class accommodations for 74 passengers.

The 30 composite and first-class railcars will be fitted with windows which rise to open and these will have the added amenity of rising louvers. These cars also will be warmed electrically, and crew members in all cars will have individual heaters.

Each of the 40 railcars will be powered by two Rolls-Royce 6-cylinder turbocharged 283-horsepower 4-stroke diesel engines, type C6TFH Mk.IV, suitable

for under-floor mounting and equipped with Rolls-Royce twin disk hydraulic torque converters, set to give a maximum speed of 69 miles per hour, thus retaining good acceleration characteristics in the lower speed range.

Two Rolls-Royce type CGF310 reversing final drive units, which have been developed specially for the Mexican order, are included in the transmission system.

Each railcar will be carried on Commonwealth cast-steel bogies. At the driving end will be a 9-foot-long luggage compartment and accommodation for the conductor alongside the driving position. Among other features will be electric braking which will supplement the main airbrake, recording speedometers, and gold-film windscreens. There will be electrically cooled drinking water dispensers together with separate toilet facilities for men and women.

The railcars will have through communication. AAR specifications will apply mainly on running gear items, but UIC standards will be observed for certain of the strength requirements.

Senator NEUBERGER. The next witness is Mr. Wilner, who is vice president of the White Motor Co.

STATEMENT OF A. S. WILNER, VICE PRESIDENT, WHITE MOTOR CO., WASHINGTON, D.C.

Mr. WILNER. Madam Neuberger, I am not as glib and articulate as these gentlemen. I have written a statement which I have not circulated.

The White Motor Co. is a manufacturer of trucks. We recently have purchased two agricultural implement corporations and we are quite a large company.

Today we sell around $550 million worth of equipment. Our exports amounted last year, I would say, to about $20 to 25 million. It could be much more. The people that know me here in Washington know that I am not very much impressed by the Export-Import Bank.

Without further ado, I will tell you about four cases. I think the cases in point, without beating around the bush, are much more important than all the philosophies of things and so forth.

It is very fashionable to criticize. We are criticized abroad by our friends, by our enemies, by everybody. We are criticized here, but we have to arrive to a certain point where we must find out what we have to do to be right for once.

Now, I believe that the Export-Import Bank, and I am referring now to this famous Berne Agreement. Every time we come to the Export-Import Bank and tell them that the Japanese or the Germans or the French have offered equipment at a better credit rate or better interest rate, they say that is impossible. We are friends. We have this agreement in Berne. Can you give us proof?

Unfortunately we cannot obtain such proofs. I have tried. I have traveled a million miles. I have tried to obtain proof, something written down where it shows somebody offered somebody 7 years instead of five years. I can't get it. It is arranged that way. Besides, these foreign countries, especially in Europe, they have great advantage over us because they are guaranteed, like in Germany or France, 100 percent for their exports. We have to ask our distributors and we have many distributors, we have to ask them to come up with 20 percent downpayment, and then we get 68 percent from Export-Import Bank, and then we have to risk 12 percent ourselves.

Well, it is fine. We risk, we think we make this 12 percent. Well, if we lose, we have lost our profit. Fine. But, when it comes to the

point where we have to compete, and we compete in our business, we compete with companies like Fiat in Italy, Renault in France, Mercedes, and many, many others that have this tremendous—these wonderful credit terms offered to them.

Another thing I wish to add is this, that we also manufacture military vehicles for the U.S. Government and also for friendly foreign governments, with the authorization of the State Department and the Pentagon.

Here is one example where we lost $2.5 million. When you lose money it hurts. We had an order from Peru, 2½ years ago, for $2.5 million worth of military vehicles. We had 20 percent downpayment in New York. They have obtained authorization from the State Department, and from the Pentagon. That was during the time when a military junta threw out the inept president and replaced him to a better advantage.

But, we have recognized them as a sovereign government and therefore we had the authorization from the State Department and from the Pentagon. I went to Export-Import Bank, I have received their letter, stating that at this time we cannot make this transaction.

So I went to Lima and I talked to General Lindley over there, and I said, "Well, General, at this time we can't do it, but we will do it later on." Unfortunately, the Bank did not grant this credit because they said that the Congress did not authorize the Export-Import Bank to extend credits for military vehicles.

Now, my question is, What is the criterion? If a sovereign country wants to buy a military vehicle—we knew that they will not buy it to fight Ecuador or Chile, they were using these vehicles for purposes of helping the Indians and helping build roads in the mountains. We knew that they won't fight a war with it, but somebody said "Well, why don't they buy houses?" Well, who are we to tell them what to buy? They want to pay for it. We had a guarantee from the national bank, the Central Bank of Peru, and we were sure that we would get paid for it. Well, we lost $2.5 million.

The second case happened 2 years ago, in Venezuela. A truck operator wanted to buy 20 Autocar trucks from us. Well, 20 Autocars, those are tremendous trucks, they cost around $20,000 each. So, we went to the Export-Import Bank again, and they asked for his statement, balance sheets and so forth. And, of course, their balance sheets are sometimes fuzzy and I am not going to enter into the reason why they are a little fuzzy. So, therefore, the statement didn't look so good. But the man had a contract from the Imperial Oil Co., for hauling of whatever he was doing in there, for 2 years, which was sufficient proof to us that if he would do this job, he would be able to pay his obligations.

On my own, I gave him 10 trucks on credit. And just last week, he paid his last note. We could have sold 20; we lost $200,000 business.

Five weeks ago I was in Peru. And there was a business there available for 210 buses. It is a very difficult situation when you come to a country and they tell you that five companies from so-called members of the OEEC and of the famous Berne Conference offered to the Peruvians--to the Lima City Hall terms 5 years, 6 percent and $800,000 loan at 8½ percent for 5 years to defray whatever expenses they would have to operate these vehicles.

Of course, we can't do business like that. I went to the Export-Import Bank. I told them about it. I talked to Commerce, but I felt that if this mayor of Lima, Mr. Bedoya, could obtain a bank guarantee from the Central Bank of Peru, even then it was a good business to lend $800,000 at 8½ percent to a country that is very solvent. We know they are going to pay it.

Well, we can't even compete. We couldn't even bid on this business, because it was absolutely impossible. Well, we lost that, too.

Take the Middle East, for instance, last year and this year, we have sold to Iraq and Pakistan, over $6 million worth of military trucks—again with authorization from State and Pentagon, for cash. Of course, Iraq, is an extremely rich country, they have a lot of oil, so it wasn't too difficult. But Pakistan was a little more difficult. But we obtained that letter of credit.

Now, I submit this—and this happened last year when we shipped these 300 trucks to Iraq, the military attaché told me this, he said, "We are working on a very short annual budget. Therefore, if you could give us 1-year credit, we will buy 500 trucks."

As somebody said here before, the White Motor Co. is not in the banking business, and in Iraq, they have a habit of killing Prime Ministers and have revolutions, so we kind of feel that the U.S. Government should be the one to take the chances, not the White Motor Co. Therefore, I didn't even go to the Export-Import Bank with it, because they wouldn't even talk to me about it. So we are losing money; we are losing hard currency; we are losing dollars. We are lending money to companies like Fiat, Toyota in Japan, companies that with our money built the same equipment that we are trying to sell abroad.

These people use our money. Their materials cost less because they don't pay their help as much as we do, and we find ourselves in a very, very bad position, competitionwise. Therefore, I feel that the second title of the bill is a very good idea, and I am—and my company is with you. I don't speak now for the automotive industry as a whole. No one ever shows up from the automotive industry except Wilner, so I am here and I tell you what I think. And thank the Lord, I am an American, I live here and I can say what I think.

I thank you very much.

Senator NEUBERGER. I enjoyed your testimony very much, Mr. Wilner.

Would you say what part of your sales are dependent on foreign buyers? Is that a sizable part of your business?

Mr. WILNER. We have right now 6 percent of our sales in exports, but we could have much more.

Senator NEUBERGER. More?

Mr. WILNER. Much more.

Senator NEUBERGER. Do you think then, with your experience, that the Export-Import Bank would oppose this legislation?

Mr. WILNER. Absolutely; I will say so.

Senator NEUBERGER. Or maybe they would welcome it because it would clear the air for them and so they could make——

Mr. WILNER. I don't think they want the air to be cleared.

Senator NEUBERGER. But it is not their money they are loaning.

Mr. WILNER. I tell you, Mrs. Neuberger, I think that sometimes they think that it is their money. [Laughter.]

Because, you see, these people are very conservative. This idea of having the private banks to be criterion for our export credit, it is good and bad, because you go to a banker in Cleveland or in Detroit and if you go to a sophisticated banker in New York, he might go along with you. But you go to a small bank in, let's say, Toledo, Ohio, and you apply for an export credit guarantee, they won't even go to the Export-Import Bank if they don't see something really ironclad.

The whole thing, if you have $10,000, I lend you $5,000. Therefore, I don't think—I think that there should be an agency to handle these credits, not private banks. They are very conservative and they think in terms of handling the depositor's money. But this is not the depositor's money. This is the taxpayer's money, this is something that the Export-Import Bank has been chartered to help the exporter with, to be flexible.

Senator NEUBERGER. It is so interesting to me because it is a kind of contradiction. Much of the testimony we have had on this bill, not only today, emphasizes the conservatism of these banks and we always thought that the business community was conservative and wanted its investments well guarded and well protected.

One of the witnesses previously commented that the Bank is conservative; bankers by tradition are conservative. This conservatism shows. The bank has a conservative view.

I am so amazed because they are using it as a term, and some of the people I work with trying to pass legislation think that is a virtue. So here we have kind of a reversal in the community.

I think that maybe some of the legislation affecting the Bank has passed because it is conservative. This has given some Members of the Congress a feeling that it is not a radical institution, it is not going to take risk loans and so on, but I am hoping our legislation—I am a sponsor of this—will give the Bank the support of the Congress to be a little more flexible.

If the word is "daring," I don't think it is necessarily a risk. I don't like that word, so let us say "adventuresome."

Mr. WILNER. Mrs. Neuberger, the thing is that the banker, as I say in New York, when you talk about big banks in New York, it is different. They have been through the mill. They know these things. They know export, they have their own branches in every city of the world.

But when you take a small bank out of New York, when you take banks in Cleveland or banks in Detroit or even Chicago, these bankers, they usuallly—it is usually a vice president in charge of so-called foreign divisions, well, it has been instituted lately, so the man is actually a banker for 30 years, he has been the vigilant guardian of the depositor's money and here you come to him and you say, "Mr. So and So, in Caracas they want something on credit."

The customer in Caracas is not quite ready with his statement, "Oh, my goodness, well, that is terrible," exclaims the vice president in the bank. No sale. Now, Madame Chairman, we can't have that, not in foreign trade. We are losing a lot of dollars and that is why we are here today, is to get some of these dollars back.

Senator NEUBERGER. Thank you very much. I enjoyed your contribution.

We will next hear from Mr. May, who is vice president of the Export Procurement Corp. of New York.

STATEMENT OF A. CUSHMAN MAY, VICE PRESIDENT, EXPORT PROCUREMENT CORP., NEW YORK

Mr. MAY. Thank you very much, Madam Chairman.

Senator NEUBERGER. Would you be able to abridge your oral statement somewhat?

Mr. MAY. I will undertake to do so. Our testimony is a little bit different than the average manufacturer's situation, as we are really in the business of financing.

So many times this afternoon I heard it said the manufacturer wants to deal with manufacturing and not financing and this is why we are in the picture.

Briefly, to outline what we do: Our corporation offers manufacturers 100 percent nonrecourse export financing, committing in advance—which is the point often raised, committing in advance the financing that will be available at the time of shipment.

Now, we do this through collaboration of two very large finance companies, and our financing services are available for participation by any qualified commercial bank in the United States. Briefly, explaining how we operate is that we operate under the partial protection, and I underline the word "partial" of the Foreign Credit Insurance Association, which is the export credit insurance organization formed in February 1962, which consists of U.S. exporters granting credit to foreign buyers.

Basically the way our program works is that a manufacturer receiving an order from overseas, contacts, tells us the name of his foreign customer. We then check out the foreign customer.

The manufacturer also tells us the amount of the transaction, the terms requested by the foreign buyer. We take all of this into consideration. If we approve the foreign buyers' credit and we obtain an FICA insurance policy in our own name on this foreign transaction, we then are prepared to commit payments to the U.S. supplier upon surrender of the shipping documents covering that particular transaction.

I just believe I should mention that the Foreign Credit Insurance Association's medium term covering capital equipment exports policy covers 85 percent of the risk over a period of up to 5 years. The manufacturer taking up a policy in his own name would have to remain exposed to the 15 percent uninsured portion and the manufacturer also contingently is liable, should the foreign credit insurance association deny liability when a claim arises. In other words, the manufacturer assigns his policy to a bank, but the bank in turn holds the manufacturer contingently liable if the insurance policy fails to pay off.

So the risk on the uninsured portion, open uninsured risk is picked up by us and contingent liability of the exposure, should FICA not pay, is also our responsibility. Taking these responsibilities, we are then prepared to pay the manufacturer 100 percent nonrecourse financ-

ing and we will do this, employing not our own funds but the commercial banking community's funds. We give the commercial bank the guarantee of Carl Marks & Co., the largest foreign security dealers with a $20 million capital, we give them the guarantee that if FICA fails to pay under a claim, we will then under Carl Marks make payment to the financing bank, holding them harmless in effect.

The James Talcott finance company, with a $40 million capital, and $500 million in assets, together with our own company, finances the uninsured 15 percent. So all of the risks are picked up by the Export Procurement Corporation. Funds are used from the banking community and the manufacturer is paid 100 percent without recourse at the time of shipment.

Now, this is what our corporation does. Naturally, we are very dependent on the Foreign Credit Insurance Association for the coverage we need before we can offer nonrecourse financing. And toward this comment we would like to express our feelings about certain aspects of the FCIA program, which on the surface the wording of the policy is an extremely competitive situation with what is offered in the European markets. And in all there are 19 nations using export credit insurance. Almost all of the European countries, Japan, Australia, and a few others, have export credit insurance, government-backed programs.

What then is the problem with FCIA strikes us as being the attitude of the Export-Import Bank. The policy is good, but the performance is lacking in certain respects and this is because FCIA puts limiting restrictions, we feel, on FCIA's procedures and risk-taking abilities. Specifically, we feel Export-Import Bank takes an attitude toward underdeveloped countries which hinders the exports by Export Procurement Corp., which is any manufacturer willing to use our services, hinders our ability to sell to the underdeveloped countries. Basically, the attitude expressed by Mr. Linder is that we should not sell to countries that don't have enough dollars to pay us back which is a very sound argument normally speaking. Except for the fact that on the one hand AID is investing tremendous amounts of money in these very countries that we are refusing to deal with.

In effect then, we are sending down our development funds, hard currency funds which the Europeans are then absorbing in their trade with these countries, countries which we say really aren't good enough to be our markets.

There is an argument that is thrown out that AID funds are not lost entirely because something like all but $400 million I believe, I don't remember the total figure, but they say all but $400 million of last year's AID funds were tied to U.S. exports, in other words, had to be used by the foreign country to purchase in the United States.

However, this is a little bit of a shallow argument because if you realize that even Argentina, as we have mentioned today, or Brazil, generates to a certain extent hard currencies through its own trade. Those hard currencies so generated will be used by that country or those countries to purchase from the most competitive exporters in the world. They will buy from the Germans, the Italians, the French. They will buy what they have to with our funds, but they will use their own funds to buy from the most competitive exporting countries. So what we are virtually saying is that we don't need to worry about

selling these markets because we are getting our own AID funds back and why should we compete for the hard currencies generated by that country's trade. It is virtually throwing away a large segment of an export market that we could get into.

As an example of, let me go back a moment, one of the other arguments besides this tide fund situation is that if the U.S. manufacturer gets his machinery into an emerging nation before other competitor nations do, he will achieve what we call market penetration. That is, as we said earlier, if you are building an aircraft fleet and you start with Boeing, you are most likely going to continue with Boeing, because you have spare parts and you have servicemen that are trained to handle Boeing equipment, et cetera, and you will continue to buy the product that you started with. This is true in a variety of markets. I cite the example of the large fishmeal machinery manufacturer who is competing with the very aggressive Danes and Norwegians to get into the Chilean fishmeal market, which is a very big market and generates valuable dollar exchange for Chile, because almost the entire amount of fishmeal is exported to the United States.

So what happens here is that recently this particular—and it is true of several fishmeal machinery manufacturers—had a roughly $1 million order from Chile and they were offered by the Chileans a stockholders' guarantee, and a mortgage on the equipment, the stockholders of the Chilean companies guarantee plus mortgage on the equipment. This then was taken to the Export-Import Bank and asked would this be as a collateral for 5-year financing. They said: "No, we want to have a Chilean bank guarantee."

Well, needless to say, the Danes or the Norwegians—I think the Danes in this case—got the order without requiring a bank guarantee. Here it was good credit, purely a matter of whether or not we should trade with Chile without a bank guarantee. I am sure if Mr. Linder were sitting beside me he would say: "But, Mr. May, we have financed a great number of fishmeal plants in Chile," and truly he has and his Bank has, but in each case, almost without fail, he has required a local bank or a development bank guarantee.

It really means that the Chileans importing this machinery under bank guarantee were so desirous of U.S. machinery they were willing to pay a higher price for it, because certainly a local bank guarantee is expensive, especially in Chile.

It is also apparent from other procedures and policies of the Export-Import Bank that we are not now encouraging, let's say, sales to the lesser developed countries. One example of this is the 30-percent retention required in a number of markets, including Argentina, Brazil, Egypt, and Turkey. Here the FCIA-insured export or EPC, if we are the insured exporter, must retain for our own account 30 percent of the exposure without insurance. This is twice what would normally be required, twice 15 percent.

It is almost impossible, we feel, for our own company, with our relatively low-profit margins, to carry 30 percent for 5 years. And to show it is not just our company, last week, I received a telephone call from one of the larger textile machinery manufacturers in New England who told me of a million-dollar order he had received from one of the larger Chilean textile mills and he said that he can't accept it. They want 5-year terms, but our firm is just not willing to

remain exposed to 30 percent of the financed portion of a million dollars for 5 years. Therefore, we are going to have to go back and try to negotiate shorter terms. But this textile machinery industry is an extremely competitive industry. The Germans, French, Italians, Japanese, are all in there aggressively trying to beat out the Americans and their prices are lower to begin with. Maybe our machinery in some instances is better, but their prices are lower. And if the manufacturer has to say: "I can't give you 5-year terms the way the Japanese can, I can only give you 2 years, because I just can't get the assistance I need from the Export-Import Bank," in many cases the manufacturer in the United States loses the order.

This is what I mean by the attitude of the Export-Import Bank. If you are willing to insure 70 percent of a sale to Chile, then why not insure 85, why not let the U.S. manufacturer at least put Chile on equal footing with other markets in the world? But they say, "No," and back and forth it goes, and some sales are lost.

Now, the same was mentioned earlier in Brazil, where we require Central Bank of Brazil to guarantee on all capital transactions. This guarantee is virtually impossible to obtain.

The same in Argentina, the Banco Industrial de la Republica, and Banco de la Nacion, guarantees which are required and are virtually impossible to obtain.

Another example of what happens here and why we feel the Export-Import Bank is not playing the Government's role to the extent they could in helping private enterprise. There is a situation where a large Argentine steel mill came to us and asked if we would purchase for them some equipment from a U.S. supplier, a $70,000 order, relatively small. They wanted to repay it in 1-year terms, 20 percent down, balance in 1 year.

Well, on two points, one is there were no semiannual payments. The full 80 percent was to be paid at the end of 1 year, and the Argentine steel company refused to get the Banco de la Nacion or Banco Industrial de la Republica, and therefore it was out. The credit of this Argentine steel company is so good, we were able to sell the Argentine steel company's paper to a private bank who bought it from us without recourse and we used those funds to pay the manufacturer.

But the point here is, if a private bank is willing to purchase a foreign buyer's notes, and they are in business to make money—more so than Eximbank should be—if they are willing to purchase it, why wouldn't Eximbank let FCIA insure? This is where I feel the Government is falling even shorter than the private banking community.

One further area here, to be brief, on the attitude of Eximbank is that they say: "OK, in certain markets like Argentina, Bolivia, Brazil, Chile, Colombia, Iran, Paraguay, we won't let a manufacturer carry out an order in excess of a certain fixed amount. If it is more than that amount, we will penalize him by increasing his retention."

This is the 15 percent, 30 percent in some markets, we will increase it upward to discourage him from taking a large order and it goes without saying, that large orders tend to be sold to better credit risks than small orders, generally speaking, because it takes a big company to buy a big order. So that in Argentina, you are limited to a $250,000 transaction; in Bolivia, $150,000; Brazil, $250,000; Chile, $250,000; and so on, and in that Chilean situation, $250,000 won't buy a full fishmeal plant.

This means again—a fishmeal plant is $350,000, maybe $600,000. To buy a plant, this means the fishmeal manufacturer must remain exposed not just to 30 percent, but he gets that 30 percent increased, because the amount exceeds $250,000.

In one case we did a deal in Chile last week—about 2 weeks ago, a $660,000 sale, 5-year terms, guaranteed by the Chilean Development Bank, CORFO—and there the manufacturer had remained exposed to 35 percent or 34-point-something percent. In other words, being penalized an additional 4 percent, even though he was selling a prime Chilean customer under a Chilean bank guarantee.

Senator NEUBERGER. May I interrupt you here?

Mr. MAY. Yes.

Senator NEUBERGER. Suppose some money had been loaned for a textile plant in Indonesia, and then it was expropriated. What kind of position would the Eximbank be in then if it had gone into a politically unstable country and then this had been repeated in Brazil, Argentina, or Mexico? I notice that most of the witnesses talk about these loans for countries in which we have felt, maybe unwisely, that the political situation was less stable. You never hear much mention about the United Kingdom or Switzerland or Germany.

Mr. MAY. No. Nowadays Colombia, Chile, and Venezuela and some markets are considered relatively good. Indonesia happens to be perhaps the worst, since we will not extend medium credits to Indonesia. But if such an expropriation occurred in Brazil, the Export-Import Bank would pay off 85 percent, political loss account, but Eximbank holds that in a counter account, so to speak, and when they come to settling payments with Brazil and Brazil wants that next $300 million loan badly, they will tend to release that to get the next loan.

In other words, Eximbank is in a tremendous position to bargain government to government. And an expropriation today, a year from now, could be returned.

Senator NEUBERGER. The more governments and Eximbank get involved in some of the countries, the more demands we are going to have for legislation to protect American investment abroad, are we not? It ceases to be private enterprise, private investment, and it always reminds me of department stores who give quite liberal credit and then they come to the legislators and want more stringent laws against people who forge checks and incur bad debts.

They ask the government agency then to protect the business industry that wants to take the risk because they want to encourage the business.

Mr. MAY. Remember, our point here is that on the one hand we are trying to develop the emerging nations by almost giving our dollars away, though they don't like to admit it, and yet on the other hand, we are refusing to go in and absorb the surplus, if there is, of whatever we can get out of the nation as it emerges.

If you are not going to take a risk of appropriation in Brazil, maybe we shouldn't have lent them $6 million in 1964.

Senator NEUBERGER. Let's take a country in Africa. Can we get private enterprise to go into African countries and build cigarette plants, textile plants, or what have you?

Mr. MAY. I suppose under the proper guarantees you certainly can. We are really talking now—or at least I am talking about the exporter of U.S. products, which is continually growing. If the economy

grows, as we hope it will, using our aid funds, we want to participate in the growing import markets or exports.

Senator NEUBERGER. Don't we want private companies to go there and invest? Of course, I realize the balance of payments presents a problem but there was a time when we did, so that we wouldn't have to spend so much money through an aid program.

I ask you because of your greater experience in international finance.

Mr. MAY. I would say right now, the export of U.S. manufactured goods is in more favor than the investment of U.S. capital overseas, right now. But, like the weather, it could change.

So, the other area—this then really are my comments as far as the attitude toward underdevelopment countries by Eximbank and how it makes it difficult for manufacturers to carry out a growing sales volume.

The second area of criticism of Eximbank's policies would be toward project loans. This is the situation where you have a relatively large transaction on which Eximbank says, "This looks interesting; have the foreign buyer contact us and we will determine whether or not we can approve or finance the credit."

An example of this was a textile plant in Venezuela that had been going for a number of years, and wanted to increase its capacity and placed an order totaling $1,400,000 with three large U.S. textile machinery suppliers. Perhaps because of the size of the credit, I don't quite know what the reasons were, Eximbank said, "That is interesting; have the buyer approach us directly on a project loan." Well, the buyer refused to do so and the thing sat around and smoldered and the manufacturers got more upset and 9 months later Eximbank said, "All right, we will let this be handled through our Eximbank commercial bank participation program and through the Foreign Credit Insurance Association."

And last week, all of the orders were placed and the transaction was carried out, showing that Eximbank, under the proper guarantees, can get private money to play the part that public money was then trying to play, and much more easily, much more attractively, and the transaction was carried out without any further delay.

So, project loans, I think, is something which I would feel could come under greater consideration, that Eximbank should not be allowed to have private, as they say, with foreign buyer whenever they choose to.

There should be good reasons behind it, reasons which were not apparent to me in that textile transaction.

Then, in closing comments, summarizing here, I would like to say that Eximbank, as an agency of the U.S. Government, should never, in my estimation, be in a position of competing with private enterprise. Eximbank is obviously very proud of their $100 million profit this year, but I do not feel that the true purpose of the Eximbank should be to make money—to that extent, at least.

If they should happen to pair their profit by guaranteeing higher risk export sales and possibly also by reducing the cost of their guarantees, and the FCIA premiums, the best interests of our country would be served.

As is demonstrated by the activities of the Export Procurement Corp., once private enterprise is given protection by the Eximbank

against oversea risks, which are beyond their control, such as the polical risk we can do the rest ourselves.

In this vein, I would like to see Eximbank's activities directed toward more effective assistance to exporters, bankers, and the insurance companies in FCIA—doing for this private sector only those things which they are unwilling to do for themselves.

(The prepared text follows:)

TESTIMONY BY A. CUSHMAN MAY, VICE PRESIDENT, EXPORT PROCUREMENT CORP., N.Y., RE EXPORT EXPANSION ACT OF 1965

It is now possible for U.S. manufacturers of capital equipment to accept export orders on competitive credit terms, knowing in advance that they will receive 100 percent cash payment without recourse from the Export Procurement Corp.

In each case Export Procurement Corp. (EPC) arranges the financing through a commercial bank, so that the banking community has a direct role to play in the EPC program.

In fact, banks can use their own funds coupled with EPC's services to provide 100 percent nonrecourse export financing to their own exporter customers. Such financing provided by the bank is exempt from the 5-percent increase limitation in a bank's foreign financing portfolio during 1965.

EPC has a close working arrangement with James Talcott, Inc., the commercial finance company, and Carl Marks & Co., Inc., the foreign security dealers. In this way EPC derives the financial substance to carry out its program in the following manner:

EPC Associates, Inc. (a wholly owned subsidiary of Carl Marks) is an export corporation and therefore qualifies for export credit insurance coverage from the Foreign Credit Insurance Association (FCIA). Each export transaction we handle is first subject to our obtaining an FCIA medium term policy in the name of EPC Associates, Inc. Once the FCIA policy is obtained, we are able to commit 100-percent nonrecourse cash payment to the manufacturer at the time of shipment. Before explaining exactly how this is carried out, allow me to review various aspects of the FCIA medium term policy.

FCIA's medium term, comprehensive (both political and commercial risk protection) policy covers 85 percent of the financed portion repayable by the foreign buyer in installments over a credit period of from 6 months to 5 years. It is required that the foreign buyer make a 10 to 20 percent cash downpayment prior to taking delivery of the equipment. The total contract, less the downpayment is the financed portion.

The FCIA policy is an insurance policy and not a guarantee of payment to the exporter. There are a number of exculsions and conditions in the policy which could release FCIA from any liability should the insured foreign buyer fail to make his repayments on schedule. Also the policy requires that the insured exporter remain exposed to the uninsured 15 percent of the financed portion.

Therefore, when the manufacturer takes out an FCIA policy in his own name, he must remain exposed to the uninsured 15 percent and he is contingently liable for the insured 85 percent should FCIA deny liability in the event of a loss. Most banks when financing a manufacturer's export sale under assignment of an FCIA policy require the manufacturer to "hold the bank harmless" in the event that a loss occurs and FCIA denies liability.

FCIA has recently announced a bank guarantee policy whereby FCIA agrees to repay the financing bank in any event, but then FCIA takes recourse against the insured manufacturer in the event that payment by FCIA to the bank was not warranted under the terms of the policy. Under this program this manufacturer taking out the insurance policy in his own name must still remain exposed to the uninsured 15 percent.

As I mentioned earlier, we obtain an FCIA policy in the name of EPC Associates. Therefore, this firm is exposed to the uninsured 15 percent and is contingently liable to the bank to which the policy is assigned. This was where James Talcott, Inc., and Carl Marks & Co., Inc., come into the picture.

Talcott, together with EPC Associates, finance the uninsured 15 percent. Talcott's share of this financing is with recourse to EPC Associates as required by the FCIA policy. Carl Marks, as stockholder of EPC Associates, holds the financing bank harmless should FCIA deny liability under a loss.

In effect then we finance the uninsured portion and call on a bank to finance the insured portion against assignment of our FCIA policy and a hold-harmless agreement from Carl Marks.

When a manufacturer comes to us with an export order which he has received, and where credit terms are required to close the sale, we first check the foreign buyer's credit and then obtain the FCIA comprehensive coverage. Once we have the FCIA policy we can give an advance commitment (through a bank letter of credit) to the manufacturer—agreeing to pay him 100 percent cash without recourse at the time of shipment. The manufactlurer only remains responsible for his usual products warranty—as he would on a domestic cash sale.

In effect our firm substitutes as exporter for the manufacturer and pays the manufacturer cash while extending competitive credit terms to the overseas customer. The buyer's order is addressed to us and the export/import documentation (bills of lading, import license, etc.) are prepared in the name of EPC Associates, Inc.

Banks also benefit from this program because they can now offer their customers 100 percent nonrecourse export financing under the protection of FCIA and the additional security of Carl Marks, in the event FCIA denies liability. Since this financing is FCIA insured, the banks are not restricted in the amount of such financing they can undertake.

We could offer a similar service to manufacturers under the Eximbank guarantee program for commercial banks. However, we have found that since the commercial bank must participate in the commercial risks of nonpayment under that program, we get more attractive financing under the FCIA program.

Also, we are able to obtain good results from FCIA, largely because of our affiliation with Intercredit Agency, Inc. Intercredit Agency is a specialized insurance broker handling only FCIA export credit insurance and, as such, they are by far the largest producers of FCIA's nationwide business. Their familiarity with the requirements of FCIA makes it possible for us to get our applications handled with a minimum of delay.

Intercredit Agency is a subsidiary of Parker & Co. International, Inc., large general insurance brokers. Through our affiliation with Intercredit, EPC uses Parker & Co's office in Boston, Philadelphia, Atlanta, Jacksonville, and Miami as contact points. EPC is headquartered in New York City.

For converting a manufacturer's export credit sales into domestic cash transactions, EPC requires that the foreign buyer's promissory notes yield interest at a rate of between 6 percent p.a. and 8 percent p.a.—the exact rate being determined by the stability of the buyer's country and the calibre of the buyer firm itself.

The foreign buyer usually pays the credit insurance premium, though in some cases the manufacturer has been willing to pay this.

In return for paying the manufacturer 100 percent cash without recourse and allowing the foreign buyer repayment terms up to 5 years (thereby making the sale possible in the first place) we charge the manufacturer a flat fee of between 3 percent and 5 percent of the contract price. The exact fee depends on the dollar amount and terms of the credit as well as the quality of the buyer and his country.

From my foregoing comments you can appreciate that the extent of EPC's assistance to U.S. maunfacturers is directly related to the coverage offered by FCIA. Since Eximbank underwrites all political risks covered by FCIA's policies and is responsible for all of FCIA's losses over a prescribed loss limit, Eximbank's attitude directly affects the risks underwritten by FCIA.

I would like now to discuss several areas in which I believe Eximbank's attitudes and policies are definitely putting the U.S. exporter at a disadvantage to the English, European and Japanese competition.

(a) Attitude on undedeveloped countries

Eximbank's attitude on selling capital equipment to underdeveloped countries seems to be: "What value is there in increasing the dollar obligations of dollar-poor countries?"

There would be some merit to this argument if it weren't for the fact that AID has been and is now investing hundreds of millions of dollars in the underdeveloped countries. The fact is that if we don't compete through trade for the dollar resources of these countries, the Europeans will benefit from the hard currency development funds which we have invested.

A large portion of our AID funds are tied to U.S. exports but this is not enough—we are fooling ourselves. A country receiving tied AID funds will

use those funds to purchase just that amount from the United States, but the hard currency which that country generates through its own trade will be used to purchase from the most competitive exporting country. We should be going after those orders, and not simply be content to bring back our own dollars.

Another valid argument for selling the underdeveloped countries is the argument of market penetration. The exporting country that gets its machinery in first is most likely to get repeat orders.

A perfect example of this is the fish meal machinery industry. The Danes and Norwegians have been making every effort to establish their machinery in the Chilean fishmeal industry—an industry which has grown tremendously in Chile in the last 3 years.

One of the largest fishmeal machinery manufacturers in this country recently lost a $1 million order in Chile to Danish competition because the Danes were satisfied with a mortgage on the equipment and the stockholders' guarantee, instead of the local bank guarantee, which we required. Instead of holding back, we should be encouraging the fishmeal industry in Chile because all the fishmeal production is exported from Chile, creating valuable foreign exchange for that country.

Eximbank can cite a number of fishmeal plants in Chile which they have financed or guaranteed for various manufacturers. However, Eximbank required local Chilean bank guarantees of payment on almost all these credits which had the effect of increasing the cost of the U.S. equipment. It is evident that the orders were placed in the United States not because we offered the most competitive financing terms, but because the Chileans insisted on U.S. equipment even at a higher cost.

It is quite apparent that right now Eximbank is not encouraging sales of capital equipment to Chile and a number of other lesser developed and underdeveloped countries. As an example of this, FCIA presently requires the insured exporter selling capital equipment to Chile to remain exposed to an uninsured 30 percent of the financed portion, instead of the usual 15 percent.

There are few manufacturers who are willing to remain exposed to 30 percent of a large, 5-year credit to Chile. Last week one of the largest textile machinery manufacturers in New England stated that they had a $1 million order from the largest textile mill in Chile, but the Chileans wanted 5-year terms and the manufacturer was not willing to carry 30 percent uninsured for that period of time. They are now trying to renegotiate with the Chilean textile mill for shorter credit terms and hopefully the order will not be lost.

The same 30 percent uninsured retention rule applies for FCIA in Argentina, Brazil, Egypt, and Turkey. This is not encouraging U.S. exporters to sell even good buyers in these countries. EPC is not usually willing to handle capital equipment sales on credit to any of these 30 percent retention markets. Considering our small margin of profit to the amount of the risk taken, it is just not feasible—unless the buyer is unusually good, and/or a good local bank guarantee is offered, which, of course, increases the cost to the overseas customer.

In Argentina and Brazil—countries where we are spending tremendous amounts through AID—there are other difficult requirements (besides the 30 percent retention) raised by FCIA. In Brazil all capital equipment sales must be guaranteed by Banco do Brasil and in Argentina by either Banco Industrial de la Republica or Banco de la Nacion. The Banco do Brasil guarantee is practically impossible to obtain and recently we experienced the following situation in Argentina.

An Argentine steel company with a triple A credit, wanted to purchase $70,000 of U.S. equipment on 1-year terms. However, they wouldn't offer the guanantee of either of the required banks in Argentina and therefore FCIA couldn't insure it. Under these circumstances EPC was able to sell the Argentine steel company's note, without FCIA insurance, to a bank and pay the manufacturer cash without recourse. The cost of handling the transaction this way was more than it would have been under FCIA coverage. The point here is that if a private bank was able to purchase the overseas buyer's note outright, FCIA certainly should have been able to insure it.

Besides the trade-hindering 30-percent retention and local bank guarantee requirements for certain countries, Eximbank also imposes limits on the size of a particular capital equipment export sale to certain countries. For example, here are some of the maximum limits per transaction imposed on exporters selling to the following countries: Argentina, $250,000; Bolivia, $150,000; Brazil, $250,000; Chile, $250,000; Colombia, $450,000; Iran, $450,000; Paraguay, $150,000; etc.

Where the amount of the sale exceeds the transaction limit in a particular country, FCIA will consider covering it, but the uninsured retention by the exporter is increased proportionately.

You can imagine the problems this imposes on a fishmeal machinery manufacturer selling to Chile. Since complete fishmeal plants almost always exceed the $250,000 transaction limit in Chile, the manufacturer must carry 30 to 40 percent of the financed portion for his own account and without insurance. FCIA recently approved a $660,000 credit to Chile (under a CORFO guarantee) and the manufacturer's retention was 34 percent. After several sales on this basis, many manufacturers just couldn't afford to make any more export sales.

I would propose that a manufacturer have his retentions reduced by FCIA as his insured export volume exceeds $1 million, $2 million, etc. The present retention system works against the efforts of the most successful manufacturer/exporter.

The reason behind having an exporter retain a direct interest in each sale he makes is sound. But once a manufacturer has carried out several million dollars of export volume through FCIA, there is no question that the manufacturer is reliable and responsible and will have no less interest in his export sales if his retention is reduced to 5 or 10 percent. Conversely, by reducing the retention, FCIA would make it possible for the manufacturer to carry out an even larger volume of export business on competitive credit terms.

(*b*) *Attitude on project loans*

Eximbank has expressed the attitude on various occasions that on a particularly large export contract, usually over $1 million, they want to have privity with the foreign buyer. This means the buyer contacts Eximbank directly and requests the financing from Eximbank. In effect Eximbank carries on the negotiations with the buyer in behalf of the manufacturer (supplier) because they feel they are better able to judge the credit and arrange the financing that way.

It may be understandable that Eximbank wants privity with a foreign central bank. However, Eximbank's privity with a private foreign buyer is putting on a government level a matter which could be perfectly well handled on a private (supplier-buyer) level.

As a good example of this, about a year ago, three textile manufacturers received a total export order for $1.4 million. The buying firm had been in operation for a number of years and they simply wanted to increase their plant capacity.

Eximbank wanted this to be a project loan and asked the buyer to approach them directly with a request for the financing. The buyer refused. Just this month—9 months later—Eximbank agreed to handle this financing through FCIA and under the Eximbank guarantee program, and the sale was easily financed by the supplier's banks.

Eximbank, as an agency of the U.S. Government, should never be in a position of competing with private enterprise. Eximbank is obviously proud of their $100 million profit this year, but I do not feel that the true purpose of Eximbank should be to make money, to that extent, at least.

If they pared their profit by guaranteeing higher risk export sales and possibly also by reducing the cost of their guarantees and FCIA's premiums, the best interests of our country would be served.

As is demonstrated by the activities of the Export Procurement Corp., once private enterprise is given protection by Eximbank against overseas risks which are beyond their control (i.e., political risks), we can do the rest ourselves.

In this vein I would like to see Eximbank's activities directed toward more effective assistance to exporters, bankers, and the insurance companies in FCIA—doing for this private sector only those things which they are unwilling or unable to do for themselves.

Senator NEUBERGER. Thank you very much, Mr. May. I have been cutting in on the time of the last witnesses today, so I think I will excuse you and get on with Mr. Davis. He has been very patient.

Mr. J. W. C. Davis, chairman, Great Plains Wheat Trade Expansion Committee, and he is accompanied by Mr. Brakke, who is chairman of the board in South Dakota, and Mr. Goodman, an economist, with the Great Plains Wheat Trade Expansion Committee.

The testimony gets so interesting, I am sorry, I encroached on your time.

STATEMENT OF J. W. C. DAVIS, CHAIRMAN, GREAT PLAINS WHEAT TRADE EXPANSION COMMITTEE, BENNETT, COLO.; ACCOMPANIED BY ANDREW BRAKKE, CHAIRMAN OF THE BOARD, PRESHO, S. DAK.; AND RICHARD J. GOODMAN, ECONOMIST, GREAT PLAINS WHEAT, INC., WASHINGTON, D.C.

Mr. DAVIS. That is perfectly all right, Madam Chairman.

We wait for a lot of things in our lifetime, and we think this is worth waiting for too.

Madam Chairman and members of the committee, my name is J. W. C. Davis, and I am here in my capacity as chairman of the Trade Expansion Committee of Great Plains Wheat of Garden City, Kans. I have with me today, Dr. Richard J. Goodman, economist for Great Plains Wheat, and Mr. Andrew Brakke, chairman of the board of our organization, which is supported by almost 300,000 farmers in the important wheat-growing States of Kansas, Colorado, Nebraska, South Dakota, and North Dakota.

These five States have a State wheat commission or equivalent organization, each of which is a constituent member of the regional association. The purpose of the organization is to expand markets for U.S. wheat at home and broad. Most of our activity is devoted to developing and expanding foreign markets.

Great Plains Wheat cooperates with the Foreign Agricultural Service of the U.S. Department of Agriculture in its market development activities. It has an office here in Washington, and in carrying out its worldwide market development program maintains an office in Rotterdam, the Netherlands, covering activities in Europe and Africa.

Our program in Latin America is carried out through offices located in Caracas, Lima, Bogotá, and Rio de Janeiro. In Asia, our organization is working jointly with Western Wheat Associates, a market development organization similar to our own, representing wheatgrowers and wheat commissions in the States of Oregon, Washington, and Idaho.

We have just been notified that Western Wheat Associates has sent a telegram in support of our statement, and we will enclose a copy with the material we turn in.

These joint activities are directed through offices located in Tokyo, Manila, New Delhi, Taipei, and Karachi.

The economic interest of the wheatgrowers whom we represent is directly affected by governmental policies and decisions regarding foreign trade. We are also aware of the even greater national interest involved in developing and maintaining a strong export market for U.S. agricultural commodities.

Although U.S. wheat production has been greatly reduced by production controls, we today are producing more wheat above domestic needs than any other nation. Under extremely tight acreage allotments, U.S. farmers are turning out between one billion and one and a half billion bushels of wheat per year. But our production potential is far above this figure, perhaps as much as 2 billion bushels or more.

Acreage allotments limit wheat farmers in the use of their productive resources; they are denied the opportunity of making the most efficient use of their land, their equipment, their labor, and their

management skills. This has meant loss in farm income—losses which have been passed on to their communities and to the Nation as well.

For many years domestic consumption of wheat has remained static, and our prospects for increased production and sales depend almost entirely on the world market. Our competitors in this market are extremely aggressive. They have long been engaged in the export trade and have strong governmental backing in their export programs. In fact, in the case of our strongest competitors, Canada, Australia, and Argentina, the exportation of wheat is very largely a Government function and a very important one.

By reason of our interest in the expansion of foreign trade, we greatly appreciate the opportunity to appear before this committee in connection with the bill S. 558, the Export Expansion Act of 1965. We are in hearty accord with the statement of policy expressed in section 2 of the bill.

The purposes expressed in title II in the field of export financing assistance are of great interest since one of our problems in the world market is our inability to compete with other exporting countries in offering competitive credit terms to potential commercial customers.

This is extremely important in Latin America and in many of the developing countries in other parts of the free world. Some of these countries are now changing over from purchases under title I of Public Law 480 to title IV. Later they will advance to more conventional types of credit if the same is available on a practical and competitive basis.

I want to call particular attention to two situations in which our export trade in wheat is seriously affected by present Government policies. One is the export licensing policy which provides that at least 50 percent of the sales of wheat and flour to Soviet bloc countries must be delivered in U.S.-flag vessels regardless of the higher shipping costs which result. The other is the requirement that U.S.-flag vessels must be used in transporting commodities for which Government and semi-Government credit is extended.

Obviously the purpose of the U.S.-flag requirement is to increase opportunities for the use of U.S.-flag vessels which have not been competitive in commercial grain transportation in recent years because of construction and manning costs which are higher than those of foreign-flag competitors.

While we fully support the objective of this policy, we are convinced by experience that it cannot be achieved in this manner. This is because the agricultural commodities covered by the present flag requirements are fully available in the world market at prices which do not reflect the higher costs of U.S.-flag vessels.

In recent months, the Soviet bloc has purchased substantial quantities of wheat from free world suppliers. In most of these sales, the United States could have been fully competitive were it not for the U.S.-flag requirements in present export licensing policies.

Evidence of the important role played by these policies in restricting sales of U.S. farm commodities can be seen in the fact that U.S. exporters have been able to complete sales to Soviet bloc countries of soybeans and soybean meal which are not subject to these restrictions.

It is apparent, therefore, that present licensing policies requiring the use of U.S.-flag vessels have not served to increase their use.

Rather, the end result has been the loss of potential sales of importance to this country, because they would reduce the cost of servicing accumulated surplus of farm commodities and would lessen our balance-of-payments deficits.

Senator NEUBERGER. Let me interrupt you briefly. When this subject of supporting wheat to Russia was debated in the Senate last year, I assume you must have followed it rather closely.

Mr. DAVIS. That is correct.

Senator NEUBERGER. You were interested in it and so you are aware of what the opposition was.

Mr. DAVIS. That is also correct. We have stated this as an example to show where in it the bill does not fit our requirements and that is about the only reference we will have to that.

Senator NEUBERGER. But I am interested in recalling the situation from the big wheat-growing States of the Middle West and remember very vividly some of the opposition to selling wheat to Russia at all, and secondly, that this requirement was kind of a sop to get it passed or even considered so I hope your organization is effective in persuading some of the members who added that provision, since you are opposed to it.

Since you are opposed to it, I think it behooves you not to confront some of those who supported it, but those who opposed it, and I hope your testimony here reaches them.

Mr. DAVIS. I am pretty sure it will reach some of the people you are talking about because some of them are very good friends of mine, and I have conferred with them recently on the subject.

Senator NEUBERGER. Good.

Mr. DAVIS. We are further disturbed by the problems which have been created by the executive branch of the Government in extending the Cargo Preference Act to cover certain sales which are purely commercial and for dollars. Members of this committee will recall, this again is an example, the transaction in the fall of 1963 when the Soviet Government through regular grain trade channels offered to purchase 4 million tons—about 150 million bushels—of wheat from the United States.

In view of the size and nature of the proposal as well as congressional expressions with respect to sales of wheat to Soviet bloc countries, it was felt that the President should make a finding as to the effect that such a sale was in the national interest before an export license was issued.

President Kennedy did make such a finding and announced that the sale would be made. However, in doing so, he introduced a new and unusual condition—namely, that shipment must be made in the U.S. bottoms if available.

Senator NEUBERGER. Do you think that was President Kennedy's idea?

Mr. DAVIS. I don't believe I am in a position to answer that question, but the statement was made.

Senator NEUBERGER. But your statement so coldly outlined here suggests that he alone unilaterally decided that, when I think actually it was the opposition to any shipment of wheat to Russia that put this limitation upon it, if we were really to look into the background

of the matter. I don't think President Kennedy felt this way about it and all indications were that he did not.

Mr. DAVIS. It wasn't our intention and certainly not mine to say that President Kennedy was solely responsible because Presidents are people and they are influenced by pressures.

Senator NEUBERGER. Yes; I am so gratified to know that you object to this limitation because I agree with you.

Mr. DAVIS. The net result of this requirement was that after heroic and skillful endeavors on the part of the U.S. grain trade and the use of every possible effort to meet these conditions, we were able after several months to ship about half of the requested amount.

It was impossible for us to fill the remainder of the order in view of the fact that the wheat was readily available from our competitors at world prices, and the Soviet Government would not pay the extra cost of as much as 23 cents a bushel needed to provide shipment in U.S. bottoms.

This transaction illustrates the fact that extending this requirement to commercial transactions helps neither the U.S. merchant marine nor our export trade. It simply means that in the end we will lose the trade while our merchant marine will gain no benefit.

Senator NEUBERGER. Again I must commend you for that statement because I have been trying to tell the merchant marine people this for a long time, that they are going to talk themselves out of business if they don't cooperate and help us ship this wheat. And they are going to die on the vine. I really am delighted with your testimony.

Mr. DAVIS. It certainly affects the export of wheat. We want to make it abundantly clear that we are interested in the maintenance of a substantial merchant fleet. We realize that this cannot be done without the use of subsidies or their equivalent. Our point is that cargo preference is not the way to afford this assistance.

We realize that cargo preference as a policy has been in effect for a great many years going back to House Joint Resolution 207 and Public Resolution 17 of the 73d Congress in 1934, and consolidated and extended in the Cargo Preference Act of 1954.

We are not objecting to the proper use of this legislation. We do not complain about applying it to shipments of U.S. Government commodities, nor to exports under the provisions of title I, II, and III of Public Law 480.

However, we believe that, even in these cases, cargo preference is outmoded and that better ways, such as direct subsidies, can be found to develop and maintain our nonliner merchant fleet.

It seems to us that if Government credit is to be considered as a factor in requiring cargo preference, a distinction should be made between credit extended as a form of Government aid, and credit intended to generate or assist commercial exports.

In the case of concessional sales programs, we are not in competition with other exporting countries; also in that situation, the U.S. Government rather than the recipient government bears the additional cost of U.S. vessels.

No such justification exists with respect to credit extended in commercial sales in order to make U.S. exports more fully competitive.

For reasons already stated, we believe that cargo preference should be abandoned and more effective methods used to support our nonliner merchant marine. If it is to be continued, however, it should not be applied where it prevents us from effectively competing with other exporting countries in transactions in normal trade channels.

Furthermore, it is our belief that the question of whether or not we are going to trade with Soviet bloc countries should be determined at the highest Government level as a matter of national policy unaffected or unmodified by legislation or restrictions which are only collateral to that issue.

However, this entire question as far as transportation is concerned would be eliminated if the method of supporting our nonliner merchant fleet is put on the basis of direct subsidies rather than cargo preference.

Now coming to the matter of expanding credit facilities, both commercial and governmental, such as the Export-Import Bank and the Foreign Credit Insurance Association, we regard this as a matter of the highest priority and importance.

At the present time, such facilities as we have fall far short of those in competing countries. We are advised that Canada, our greatest competitor in the exportation of wheat, has as far more extensive system of export credit than we do and makes much greater use of it.

Canada's Export Credit Insurance Corp. estimates that it covers 50 percent of that country's insurable exports—that is those sold on credit terms to countries other than the United States—whereas the Export-Import Bank and Foreign Credit Insurance Association together during fiscal 1964 authorized guarantees and insurance to cover potential shipments equal to approximately 4½ percent of annual U.S. exports of some $22 billion.

In Britain, the Export Credits Guarantee Department insures 25 percent of that country's annual exports. France insures 11 percent and Germany 10 percent.

In commercial markets for farm commodities, U.S. exporters are confronted by competitors offering credit arrangements providing for lower premium rates, more flexible methods of repayment, and larger percentages of the total purchase price for which credit is available.

Unless our Government offers comparable credit facilities in connection with export sales of U.S. farm commodities, we will continue to lose sales to others in both free world and Soviet bloc destinations.

Madam Chairman, the desire and effort to expand exports of farm commodities for foreign exchange is now thwarted by a lack of credit facilities needed to make such sales fully competitive with other major world suppliers; by the lack of a purposeful, consistently applied Government policy with respect to trade with the Soviet Union and other Soviet bloc countries; and by present policies requiring the use of U.S.-flag vessels regardless of their cost.

At this time I have a paper that was prepared for an earlier presentation on cargo preference and East-West trade. I would like to attach it to the statement. I will not read it.[1]

Senator NEUBERGER. We will be very glad to receive it.

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[1] See statement of Mr. Hardy before Senate Committee on Foreign Relations on Feb. 25, 1965, p. 67 of pt. II of that committee's hearings on East-West trade.

Mr. DAVIS. Certainly it is in the interest of the United States to expand export sales of farm commodities, particularly those in surplus, for foreign exchange. Expanded exports of agricultural commodities offer the most promising solution to problems associated with our capacity to produce much more than can be effectively utilized in the domestic market. At the same time, they can contribute to a reduction of the chronic balance-of-payments problem confronting us in these times.

In concluding, Madam Chairman, may I express the deep appreciation of the organization which I represent, and myself, for this opportunity to present our views on a matter which is of great importance to us and we believe of interest and importance to our Nation as a whole.

(The telegram submitted by Mr. Hardy follows:)

PORTLAND, OREG.

GREAT PLAINS WHEAT,
Washington, D.C.:

Western Wheat Associates, representing the wheat producers in Washington, Idaho, and Oregon for foreign market development, fully supports the testimony of Great Plains Wheat presented before the Senate Commerce Committee March 18, 1965. Cargo preference has severely restricted U.S. commercial wheat sales with no resulting benefit to merchant fleet. We recognize need for supporting U.S. nonliner merchant fleet and recommend this be done with direct subsidies. Loss of commercial exports due to cargo preference increases balance-of-payments deficits. Improved credit facilities are necessary but will be nullified if cargo preference applies to commercial transactions. Request consideration of committee for our position.

JAY RICKS,
President, Western Wheat Associates.

Senator NEUBERGER. I enjoyed your presentation very much. I am very interested in this wheat sale and have watched our neighbor on the north, Canada, reduce her surplus by what I think are some good marketing principles and I might also say I am in sympathy with your idea that we should directly subsidize our merchant marine fleet, if we feel that is important.

I think that is a much better way to do it. It is a fair way and so I have been very much in sympathy with some of your comments here.

I want to say that Senator Pearson of Kansas wanted very much to be here as a member of this committee and so I would like to convey his good wishes and welcome you in his behalf.

Mr. DAVIS. One purpose of our testimony here today was to show that credit facilities, expanded credit facilities alone will not cure our problem. There has to be something to eliminate cargo preference because the minute cargo preference is applied, it immediately throws us out of the competitive position pricewise in the world market.

Senator NEUBERGER. I think we only had one shipment of wheat to Russia, didn't we?

Mr. DAVIS. We had two sales, one for 1 million tons and one for 700,000 tons, but the full potential was about half, less than half filled.

Senator NEUBERGER. Where are they getting the wheat they need then?

Mr. DAVIS. They placed the order with us here in the United States during the winter when the St. Lawrence Seaway was frozen, lake

ports were frozen. The minute the sun started shining and the rivers opened up, they got it from Canada, and they purchased wheat from Australia and purchased wheat from France and Argentina, from everybody except the United States.

Senator NEUBERGER. It hasn't hurt the moral fiber of those people at all to sell wheat to Russia.

Thank you very much and that will close our hearings for today. We will resume at 10 o'clock tomorrow morning.

(Whereupon, at 4:17 p.m., the committee was adjourned, to reconvene at 10 a.m., Friday, the 19th of March 1965.)

EXPORT EXPANSION

FRIDAY, MARCH 19, 1965

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

The committee met at 10:10 a.m., in room 5110, New Senate Office Building, Hon. Daniel B. Brewster, presiding.

Senator BREWSTER. The committee will come to order. We will continue hearings on S. 558, the Export Expansion Act of 1965.

The first witness will be Mr. C. R. Carlson, Sr., vice president, John Deere & Co., Moline, Ill. I might add parenthetically, Mr. Carlson, I believe your great company proposes to open a new plant right in the middle of Baltimore County, my own county. I am very pleased.

STATEMENT OF C. R. CARLSON, SR., VICE PRESIDENT, JOHN DEERE & CO., MOLINE, ILL.; ACCOMPANIED BY H. A. SHELBY AND WALLACE LLOYD, MANAGER, WASHINGTON, D.C.

Mr. CARLSON. Yes, sir, a franchise.

Senator BREWSTER. Mr. Carlson, I see your statement is rather lengthy. You can read it in its entirety or, if you care to, submit it for the record and comment informally on it. It is entirely up to you, sir.

We are glad to have you here. You may proceed.

Mr. CARLSON. I think, Mr. Chairman, that I can probably read it rapidly and clearly, and it will save time and maintain the continuity if you don't mind, rather than try to brief it.

Senator BREWSTER. Of course not.

Mr. CARLSON. My name is C. R. Carlson, I am senior vice president of Deere & Co., one of the world's large manufacturers of agricultural equipment and a rapidly expanding line of industrial equipment. I am director of sales for Deere & Co. and its worldwide subsidiaries.

I have with me Mr. H. A. Shelby, treasurer, of our overseas organization which administers worldwide sales and manufacturing operations outside the United States and Canada. And on my left, Wallace Lloyd, manager of our Washington office.

I have the privilege of appearing before you in support of the objectives of Senate bill S. 558, which was introduced in the U.S. Senate by Senator Magnuson on January 15, 1965, and which is cited as the "Export Expansion Act of 1965."

During the past 4 years, the administration has engaged in a program of expanding exports as a means of overcoming our unfavorable balance of payments.

We have energetically participated in the export drive with far-reaching long-term plans and investments.

In our organization, export sales of U.S. goods are handled through 1,156 dealers and distributors with 2,114 sales outlets in 110 countries of the free world and 1,783 of our personnel are employed in sales and service activities throughout the free world area.

Since World War II our industry has encountered growing competition from Europe and from the Iron Curtain countries. Lower production costs in these countries as compared with costs in the United States have given these competitors a price advantage which can be overcome only through the sacrifice of normal margins.

In addition to this disadvantage, a number of countries of the world discriminate against importations of agricultural equipment through the imposition of customs duties, surcharges, prior deposit requirements and other devices.

U.S. manufacturers of agricultural equipment enjoy no such protection against the importation of agricultural equipment since such equipment can be brought into the United States free of any such penalties. We believe strongly in the concept of free trade but we also believe that it should be a two-way street. If we are to continue to permit the United Kingdom and the countries of the Common Market to ship complete goods and fabricated components into the United States duty free while these countries, at the same time, impose substantial duties and surcharges on similar products imported into their countries from the United States, such practice will not contribute toward the solving of our Government's balance-of-payments problem.

In addition, ocean freight rates from Europe to the United States are much lower than those imposed upon traffic from the United States to Europe, hence a competitive disadvantage exists for U.S. manufacturers of agricultural equipment even in our domestic market.

Appendixes A and B, attached, show the growth of imports of agricultural tractors into the United States and the decline in exports of agricultural tractors manufactured within the United States during the past 15 years. I won't ask you to refer to it.

I might summarize it by saying we dropped from 1950, when we were exporting as an industry around 90,000 tractors a year out of this country, to a low of 20,000, 3 years ago. This has come back up to about 35,000 in 1964. When we convert this to dollars, we show some gain in the last 3 years due to the fact that we are shipping the larger models of tractors which are not manufactured abroad, but we would like to point out this is going to be a temporary situation for the simple reason that the same companies that we are competing with worldwide now in the remaining export markets are going into production of these large-sized tractors.

Where impediments exist to the importation of agricultural machinery or other products of U.S. origin it might be well for our Government to survey the effect of the imposition of reciprocal impediments to the importation of similar products from those countries which now engage in such practices.

We would not want to see anything done to destroy the fine reciprocal arrangement between the United States and Canada.

Appendix C shows duty and import taxes assessed against agricultural tractors imported into major European countries and the

United Kingdom from other European countries and from the United States.

I would simply say when you refer to this, time permitting, you will find that we are at a distinct disadvantage.

In some countries, restrictions on imports or penalties such as customs duties or surcharges are of such severe nature that we have since World War II had to face the problem of giving up the market or establishing manufacturing facilities within the country.

This is true in such places as Argentina, Brazil, Mexico, Spain, and the Common Market in Europe. In Brazil we have not, as yet, decided upon local manufacturing and consequently our sales in this country went from $4,250,000 in 1954 to $232,000 in 1964.

We have invested in manufacturing facilities in Argentina, Mexico, Spain, and in the European Common Market as a means of preserving and improving our position in these markets.

Such investments have resulted in the exportation from the United States of machine tools and many millions of dollars of components and we are hopeful that such ventures will eventually result in repatriation of profits as an additional beneficial factor in our balance of payments. The balance of our own exports over our imports last year, 1964, reflected a favorable balance of $49,238,000.

To expand exports in the farm machinery and industrial category requires the establishment of marketing organizations, policies and programs similar to those established in domestic markets. It is not possible to expand a foreign market for agricultural and industrial machinery on a mail-order basis.

A marketing expansion program involves:

Careful selection, appointment, and training of distributors and dealers to achieve an effective and permanent commercial relationship.

Distributors and dealers must make substantial investments in modern buildings, service shops, tools, and well-trained sales and services management and personnel.

Financial resources must be available to enable distributors and dealers to maintain adequate stocks of machinery and spare parts and to safely finance retail sales. In most instances, the exporter is required to participate by extending substantial medium-term credits to distributors, dealers, and sometimes directly to foreign governmental agencies.

The commercial relationship necessary to build strong distributors and dealers capable of winning and holding customer confidence must be a continuing relationship without interruption. Everyone concerned must have reasonable assurance that products and service will be readily available when needed except when political or economic circumstances make such availability impossible. I cannot overemphasize, gentlemen, this is not an "off again, on again" type of thing.

Any circumstance which causes uncertainty, delays, or interruption of goods and services availability causes a loss of confidence on the part of distributors, dealers, and customers and results in loss of markets and loss of profits.

To be successful, any farm machinery export program must bring together long-range planning, organizing to carry out the

plans, hiring and training of personnel, budgeting of funds required to execute the program and advance production scheduling to insure availability of materials and end products.

Such production scheduling, based on market estimates, is projected and commitments are often made a year or more in advance of actual production.

We have made major gains in our penetration of foreign markets, but in doing so, we have encountered extremely severe price and terms competition.

Price competition can be met in some cases by sacrificing margins but it is contrary to sound business practices to reduce profit margins and at the same time increase risks by lengthening the terms of payment.

When price competition is a major factor even a small loss can become magnified and an exporter soon reaches a point where he has to become very selective of credit risks unless he can insure such risks on a reasonable basis.

Senate bill 558, title I, section 101, proposes the establishment of a Trade Development Corps to be administered by the U.S. Department of Commerce.

The function of this corps is to supplement existing Federal and private programs for developing and expanding foreign markets for U.S. goods and services by providing a readily available source of qualified personnel for undertaking specific projects or assignments designed to assist U.S. exporters in entering into and expanding the foreign markets for their good and services.

While we believe that such a corps may be of real value to firms which do not have a worldwide organization which continuously performs the functions for which the corps is proposed or to firms just entering or contemplating entry into the export markets, we do not feel that such a corps could be of any great benefit to firms such as ours where such functions are a continuous activity of our oversea organizations.

Senator BREWSTER. Senator Lausche.

Senator LAUSCHE. At least from the standpoint of your operation, a corps, a trade development corps, will not be of service to you because in your business operations, you have your own organization.

Mr. CARLSON. It would not be important for us, Senator Lausche, for the reason as I have already stated we already have a strong sales organization throughout the world, and we have people constantly doing what the corps would contemplate doing.

I would not object to it if it is of service to the small firms, or newer firms that are looking for export markets.

Senator LAUSCHE. Thank you.

Mr. CARLSON. Does that answer your question?

Senator LAUSCHE. Yes; it does.

Mr. CARLSON. Section 102 of Senate bill 558 deals with Cooperative Industrial Export Development projects. This appears to be an expansion of the Department of Commerce function of arranging participations in trade fairs, exhibitions, et cetera. We feel that such activities are beneficial to the expansion of exports.

Over the past 10 years, we have participated in 27 trade fairs sponsored by the Office of International Trade in 20 countries, 25 national trade fairs in 15 countries, and in fairs held on an annual basis in Johannesburg, Republic of South Africa; Orange, New South Wales,

Australia; Paris, France; Hanover, Frankfurt, and Munich, Germany, and in London, England.

Senator LAUSCHE. Have you seen any deficiency in the operation of this type of work by our Government? You say you participated in how many exhibitions?

Mr. CARLSON. In 1947, 27, and 15——

Senator LAUSCHE. You think that this is an expansion, or a duplication of what is now being done?

Mr. CARLSON. Yes, sir; that is the way we interpret it, at least.

Senator LAUSCHE. You interpret it to be an expansion. What is your view of the proposal? Do you favor it, or are you——

Mr. CARLSON. We would favor continuing what we are doing. We are already participating under the Department of Commerce in these other efforts. Whether this would expand it or not, I cannot say.

Senator LAUSCHE. In any event, the Department of Commerce now has the responsibility of participating itself, and having our industries participate in exhibitions around the world?

Mr. CARLSON. Yes, sir.

Senator LAUSCHE. And you have been one of the participants?

Mr. CARLSON. Yes, sir.

Senator LAUSCHE. And you cannot say whether this is needed or not?

Mr. CARLSON. No, sir; not from the standpoint—all I can speak for is my own company and our own——

Senator LAUSCHE. From the standpoint of your own company, you favor a continuation of what is being done now?

Mr. CARLSON. That is right.

Senator LAUSCHE. OK.

Mr. CARLSON. Section 103 of the bill proposes assistance for the establishment of sales and service centers abroad.

The ability to establish adequate sales and service facilities is a primary requirement of any foreign firm or partnership or other entity seeking to become a dealer for John Deere products.

The ability to enter into and to expand any market for our types of products depends to a very great extent upon the ability of the exporter and his dealer to provide adequate sales and service facilities to his customers, and we have long maintained that public funds should not be provided for the purchase of products from a manfacturer who is not qualified to provide adequate sales and service facilities for the protection of the customer. Where such a situation exists it reflects unfavorably upon the image of all U.S. exporters.

While the development of sales and service centers as proposed in the bill may be important in the case of some products, we do not feel that they are feasible or effective insofar as our types of products are concerned.

With a long-established oversea organization of both company representatives and distributor-dealer outlets in all the important countries of the free world—and statistics supported by surveys on the current markets for our products and projected markets in the years ahead—we must emphasize that our major problem is concerned with the availability of adequate facilities for the protection of export financing; thus, we come to export financing assistance as covered by title II, section 201 of Senate bill 558.

This is the area in which Government assistance is most needed and it is the area where U.S. exporters by comparison with exporters in the United Kingdom and in the Common Market find themselves at a serious disadvantage.

When the Foreign Credit Insurance Association (FCIA) was organized, we anticipated that it would place the U.S. exporter on an equal footing with exporters of other countries where Government-subsidized export credit insurance has existed for several years.

From our point of view, FCIA insurance has not accomplished this objective. It has followed the patterns of other agencies in other countries and has established new practices only after some more aggressive agency in another country has taken the lead to the detriment of American exporters.

Under the FCIA insurance program there are, in fact, two insurance systems operating side by side—a guarantee of medium-term credits operated by the Export-Import Bank of Washington through commercial banks and the credit insurance system administered by FCIA with Export-Import Bank participating. Export-Import Bank reinsures 100 percent of the political risk and the late maturities of commercial risk.

Political risk insurance is under the control of the Export-Import Bank and its availability cannot be depended upon.

Political risk insurance is freely available for those areas where political stability makes such coverage less desirable but in those countries where political risks are too great to be assumed by the private sector, it is difficult, time consuming, and often impossible for the exporter to obtain the needed coverage.

Moreover, when political risk insurance is granted for a particular country the exporter can never be certain that such insurance will continue to be available.

A case in point is our own experience in Chile where we have by diligence, hard work, and financial sacrifice made a substantial penetration against foreign competition.

Early in 1963, we requested political risk coverage of $1 million to cover anticipated exposure in Chile for the year 1963. We were up against European competitors who were offering financing with 5-year terms. The Export-Import Bank was unwilling in the beginning to grant such coverage unless we could prove that our European competitors were being insured for these 5-year credits by their own export credit insurance agencies. I might add that this is a very difficult thing to assert.

The problem was not one as to whether or not our European competitors were insured. We felt the need for insurance and the Export-Import Bank was our only source for such insurance.

It took 5 months, several trips to Washington, involving from one to three people on each trip, and a great deal of expense before the Export-Import Bank finally agreed to grant political risk insurance.

We were given an insurance policy to cover political risk for 85 percent of shipments with CIF Chilean port value of $650,000 instead of the $1 million we had requested.

The $650,000 was insufficient to fulfill our requirements, and we made another application for $1 million.

Just prior to Board action on this application, we had reason to believe that in all probability the application would be turned down. We immediately requested that the application be withheld from the Board.

We then went to Washington and succeeded in getting approval for an additional policy covering 70 percent of shipments with CIF Chilean port value of $500,000. We had to agree to reduce the risk coverage from 85 to 70 percent in order to get this additional political risk insurance.

Our penetration of the Chilean market has continued but since October 1964, we have been forced to withhold shipment of orders totaling approximately $2 million, and now we are confronted with a request from our dealer to guarantee to supply him with not less than $2 million worth of our goods per year for the next 5 years, without which he cannot operate profitably, and will cease to be our dealer.

The possibility of obtaining political risk insurance to cover this business was discussed with the Export-Import Bank on December 10, 1964, with negative results.

We were informed that the Export-Import Bank was overexposed and that Chile was going to default on its debts. We believe that the word "default" was misused and that the intended meaning was that Chile would ask for a "rollover" or extension of its intergovernmental agency debts.

At the present time, we have an application pending through a commercial bank in New York for $2 million whereby the New York bank will take the first half of maturities without recourse on us but we must assume the responsibilities for the late maturities unless the Export-Import Bank agrees to guarantee these maturities.

If the Bank is unwilling to grant risk guarantee and we are unwilling to assume the total risk ourselves, the dealer has indicated, as previously stated, that he will be forced to give up the John Deere product line. Obviously, this would mean the loss of the Chilean market.

In any event, our past experience has indicated that we cannot rely upon prompt and adequate assistance from the Export-Import Bank in the way of political risk insurance. Many times we are faced with the decision of whether to fulfill the requirements of a given market, assuming the risks ourselves, or to give up this business to European competition and lose the position we have gained in the market through strenuous and costly efforts.

Another example of the problems faced by us in our efforts to expand exports occurred in Egypt where we competed for the sale of approximately $1 million of industrial equipment to an agency of the Egyptian Government.

We asked the Export-Import Bank for political risk insurance and were informed that they had placed a $250,000 limitation on the amount of political risk insurance available to any one exporter during a period of 1 year.

Since we were certain that the Egyptian Government would not split their requirement between two or more suppliers, with the complication of parts and service this would entail, we made inquiry as to

whether the Export-Import Bank would insure up to the maximum of $250,000 in case we were willing to self-insure the balance. The answer was no and we lost this business to Australia.

Another example occurred in Iraq where we had an opportunity to sell 100 combines to a governmental agency. In this instance, the Export-Import Bank turned down the application for political risk insurance and told us to suggest to the Iraqi Government that they make a direct application for a project loan.

While we think project loans have their place, we do not feel they are workable in the kinds of competitive situations which exist when selling through normal commercial channels.

It is most disadvantageous for a dealer who is competing for government business to tell such governmental officials to forget about credit from the supplier and apply for an Export-Import Bank project loan. As a result, we lost this business valued at about $500,000.

During January we were given an opportunity to quote on 2,000 tractors with bulldozers for the Pakistan Department of Agriculture. The total CIF value of this transaction was approximately $17 million, but since shipments were to be spread over a period of 3 years, with payments made semiannually, we estimated that the total amount outstanding would peak at about $10,500,000.

We asked the Export-Import Bank whether they would insure this transaction for political risks. The Export-Import Bank replied as follows:

In view of AID's major interest and large contribution in the field of Pakistani agriculture, regret we are not prepared to extend the large-scale dollar guarantee you request.

Senator LAUSCHE. Mr. Chairman.

Senator BREWSTER. Mr. Lausche.

Senator LAUSCHE. What do you mean by "political risks"? Is it the risk that results when the Government confiscates property? Just what do you mean by that?

Mr. CARLSON. I will refer this to Mr. Shelby, who handles this.

Mr. SHELBY. Senator, we consider "political risk" to be anything that is done by the Government which would stop payment, like blockage of funds or confiscation or even long delay in payment. And that is the way that it is interpreted by the insurance people.

Senator LAUSCHE. Let's assume that your loss results from expropriation by the Government. Would you consider that a political risk?

Mr. SHELBY. That would be a political risk.

Senator LAUSCHE. Let's assume that it results from rebellion.

Mr. SHELBY. That is a political risk.

Senator LAUSCHE. Another political risk, a third one?

Mr. SHELBY. Inconvertibility of currency.

Senator LAUSCHE. Is that the third one?

Mr. SHELBY. That is it.

Senator LAUSCHE. Is there a fourth?

Mr. SHELBY. Well, those are the principal ones.

Senator LAUSCHE. It is the political risk guarantee that you can't get; is that correct?

Mr. SHELBY. That is where we have our greatest difficulty.

Senator LAUSCHE. Is the Eximbank prepared to give you guarantees of the payment of the debt but excluding the political risk phase of it?

Mr. SHELBY. You are talking about the commercial risk now?

Senator LAUSCHE. Yes.

Mr. SHELBY. The commercial risk is insured by the FCIA, operating out of New York.

The way that works, if it is a long-term deal, say 3 years, the first payments are insured by the FCIA on their own, and then the Export-Import Bank gets into these later maturities.

Senator LAUSCHE. On the commercial aspect?

Mr. SHELBY. On the commercial aspect.

Senator LAUSCHE. What you are now wanting is the Federal Government, through this bill—and I don't know whether it does it, and I don't believe it does—to assume guaranteeing the payment of the debt in the event the Government expropriates the currency with which they pay—that is, it becomes unconvertible—and the loss resulting from rebellion; is that right?

Mr. SHELBY. That's right.

Mr. CARLSON. Mr. Lausche, I——

Senator LAUSCHE. Don't we have a provision of that type in one of our laws?

Mr. SHELBY. You are thinking, Senator, of the——

Senator LAUSCHE. Foreign-aid program.

Mr. SHELBY. The guarantee program.

Senator LAUSCHE. The guarantee program, yes.

Mr. SHELBY. That does not guarantee this kind of an operation.

Senator LAUSCHE. It deals with housing.

Mr. SHELBY. It deals with investments. It does not deal with exports.

Senator LAUSCHE. I am asking the staff, Mr. Pertschuk, this bill, as it is now written, doesn't envision guaranteeing the payment of losses that result from political actions?

Mr. PERTSCHUK. It could.

Mr. CARLSON. Senator Lausche, may I read this statement, and this is the reason—Our interpretation may be incorrect, but at least we interpret this——

Senator LAUSCHE. What are you reading?

Mr. CARLSON. It is on page 10 of the new bill. Let me read it:

> * * * and (2), assure within its statutory limitations, that the United States is fully and effectively competitive in its financing arrangements with other countries in the development and maintenance of world markets.

I don't know what kind of interpretation would be put on that in actual operation. At least we feel that this is the key difference that is contained in this bill as compared with the original Export-Import Bank Act.

Senator LAUSCHE. In these cases, where you have met disappointments, you say it came as a result of the Export-Import Bank officials refusing to guarantee against losses that resulted from political action of the Government; is that correct?

Mr. SHELBY. Political risk; yes, sir.

Senator BREWSTER. Proceed with your statement.

Mr. CARLSON. The Italians, Japanese, British, Yugoslavians, and Russians are all competing with us for this business.

Even though this transaction is presently being reconsidered by a committee consisting of the Chairman of the Export-Import Bank, the Secretary of Commerce, the Secretary of the Treasury, and the Administrator of AID, we have little hope of being awarded the business because of the long delay of our Government in reaching a decision. With the kind of competition which exists for this kind of business, delays such as the above are not conducive to expanding our export markets. If it is determined to be in the national interest to secure such markets, steps must be taken to eliminate delays.

At the present time, we have applications pending with commercial banks for a total of $2,560,000 for Colombia. The banks have made application to the Export-Import Bank for guarantees and we are now awaiting the decision of the Export-Import Bank in regard to these transactions.

There have been other instances such as those cited above but these should be sufficient to demonstrate that adequate facilities do not exist through agencies of our own Government to enable American exporters to adequately meet foreign competition and to place their facilities in full support of the export drive.

In our industry we are involved in a severe price-and-terms war with foreign competition on a worldwide basis. In the developed countries of the world, we can evaluate the risks involved and handle the financing of medium-term transactions with reasonable expectation of repayment in accordance with the terms extended.

However, this is not true in the developing countries. Consequently, the prudent exporter must grant terms of payment on the basis of trends he may be able to forecast over a short period of time and on the basis of which he may have reasonable expectation of repayment.

With foreign competition granting unusually long terms on the basis of insurance subsidized by its own governments, the American exporter must take the risk himself, give up the market, or be assured that adequate protection is promptly available from agencies in the United States.

From the standpoint of prompt decisions and continuity of availability, the facilities of FCIA and the Export-Import Bank have been inadequate and have put us constantly at a disadvantage with foreign competitors.

If exports are to be substantially increased as a means of overcoming our unfavorable balance of payments, action must be taken on an urgent basis to provide readily available and continuing support to American exporters to enable them to compete successfully in important markets where the risks are beyond their capacity to assume and where importance is attached to the economic progress of the importing country. This we believe is a matter of urgent national interest.

And I would like to add here, I think this is a high policy decision of our Government which they are going to have to determine.

This statement is not intended in any way as a personal criticism of any officers or the staff of the Export-Import Bank. Our relationship with these people extends back to the early years of the Bank's existence. They have always been extremely cooperative, and we feel that they have done an outstanding job within the framework of operating policies established by the authorities to whom they are responsible.

We do feel that such policies are outmoded insofar as present-day needs are concerned, and we feel that it is in the national interest that such policies be modernized to enable the Export-Import Bank and FCIA to play an even greater role in the export drive as a major aid in overcoming our serious balance-of-payments problem.

The enactment of Senate bill 588 will be of immeasurable assistance to U.S. exporters in their efforts to expand their volume of exports and reduce the loss of their markets to foreign competition both inside and outside the Iron Curtain—if:

(1) It is considered to be in the national interest that U.S. exporters penetrate and/or expand the markets for their products in developing countries where substantial growth potentials exist.

(2) Under title II of Senate bill 588 entitled "Export Financial Assistance" the authority and financial means will be provided to support exports to those countries where credit risks are beyond the normal capabilities of individual exporters.

(3) If the exporters can depend upon prompt and effective service, which they must have if they are to consummate such transactions in the face of severe foreign competition.

I would like to add, we don't expect in all cases we are going to meet some of these terms. We understand some of these terms today run as high as 10 years. But we have got to go out there through our commercial channels with a package of some kind. We have to know in advance whether we can, with some assurance of approval, extend this amount of credit on, say 3, 4, or 5 year's time. That is our problem.

We can aggressively sell our goods; our products are well accepted. We have the machinery set up to operate, we know where these markets are, but we always run smack up against this same problem here, which is one in the underdeveloped or growing countries of being able to assume the financial risk or get the proper kind of insurance.

Gentlemen, we believe Senate bill 558 is designated to create the facilities with which to accomplish these objectives, and we recommend that priority be given to its enactment.

Thank you.

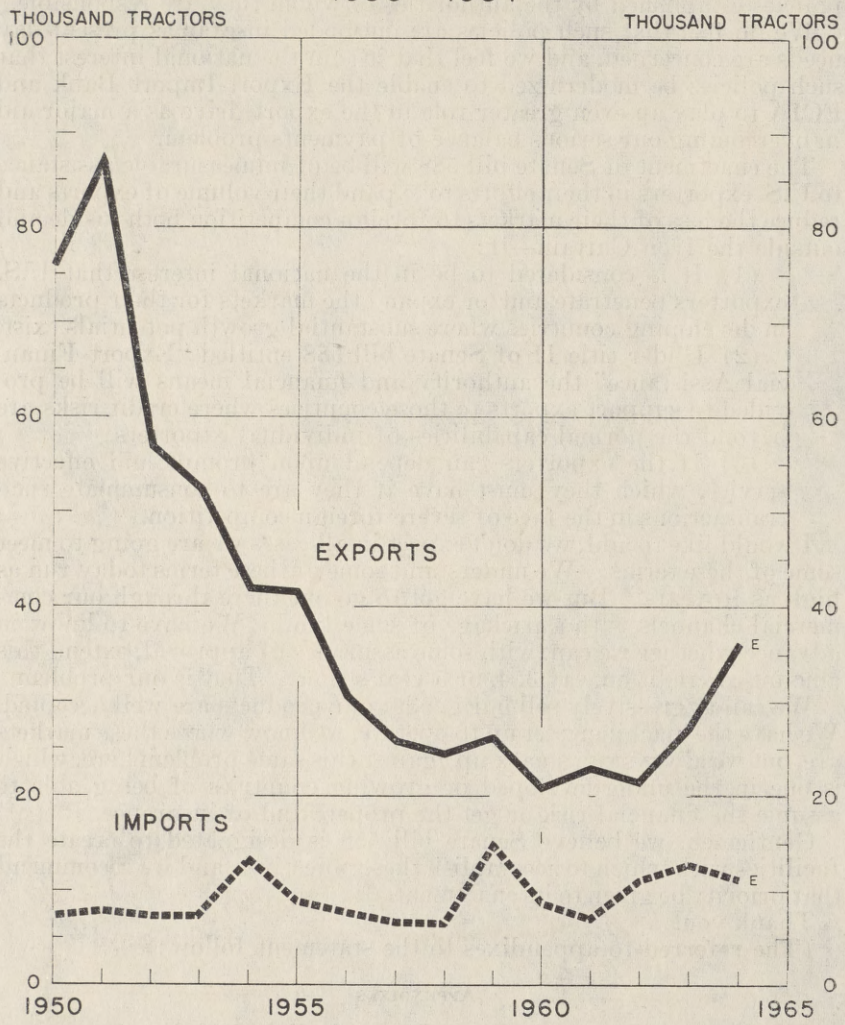
(The referred to appendixes to the statement follow:)

APPENDIXES

A. U.S. Exports and Imports of Wheel Tractors by Units 1950–64.
B. U.S. Exports and Imports of Wheel Tractors by Dollar Value 1950–64.
C. Duty and Import Taxes Assessed on Tractors in the United Kingdom and the Major Countries of Europe.

APPENDIX A

U.S. EXPORTS AND IMPORTS OF WHEEL TRACTORS 1950 – 1964



E = ESTIMATED
SOURCE: U.S. BUREAU OF THE CENSUS FT-110, FT-125, FT-410

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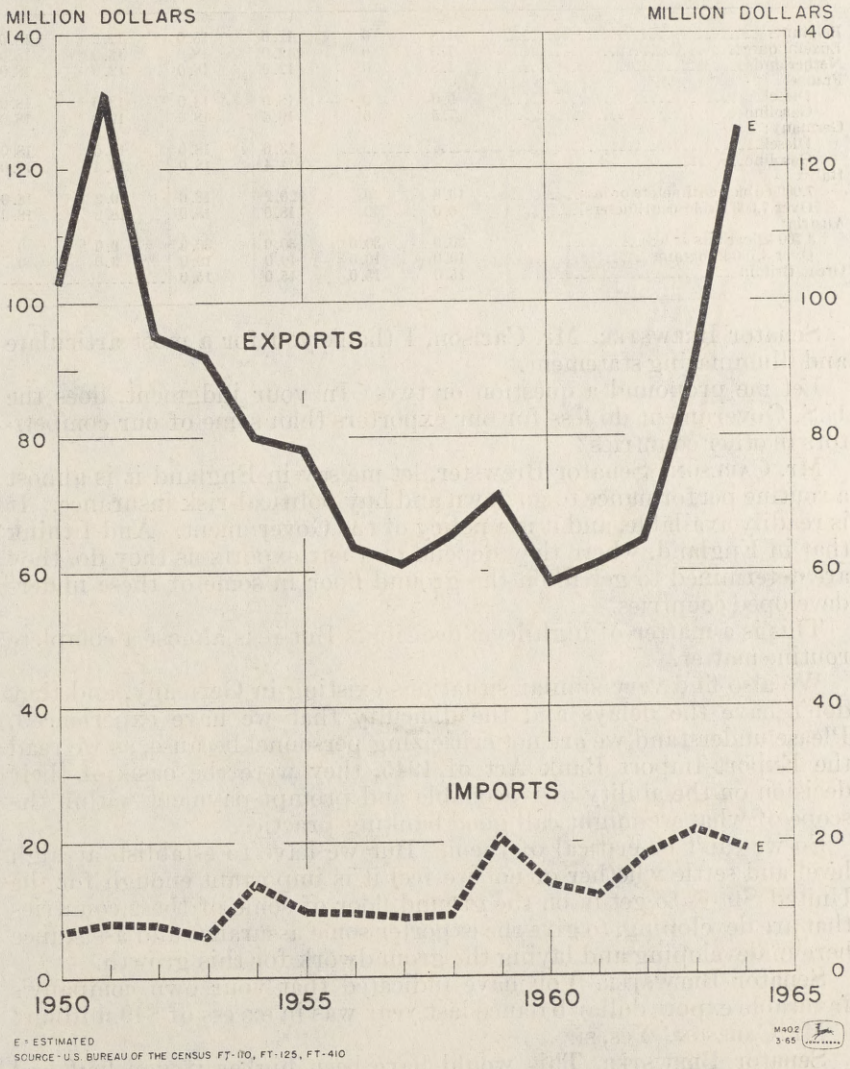
APPENDIX B

U.S. EXPORTS AND IMPORTS OF WHEEL TRACTORS 1950-1964



E = ESTIMATED
SOURCE - U.S. BUREAU OF THE CENSUS FT-110, FT-125, FT-410

APPENDIX C

Duty and import taxes on tractors

Importing country	From Germany		From United States		From England	
	1965	1968–70	1965	1968–70	1965	1968–70
Belgium	1.8	0	12.0	18.0	12.0	18.0
Luxembourg	1.8	0	12.0	18.0	12.0	18.0
Netherlands	1.8	0	12.0	18.0	12.0	18.0
France:						
Diesel	6.0	0	18.0	18.0	18.0	18.0
Gasoline	7.5	0	19.6	18.0	19.6	18.0
Germany:						
Diesel			13.6	18.0	13.6	18.0
Gasoline			14.4	18.0	14.4	18.0
Italy:						
7,000 cubic centimeters or less	10.8	0	20.2	18.0	20.2	18.0
Over 7,000 cubic centimeters	6.0	0	18.0	18.0	18.0	18.0
Austria:						
3,700 kilograms or less	30.0	30.0	30.0	30.0	9.0	0
Over 3,700 kilograms	10.0	10.0	10.0	10.0	3.0	0
Great Britain	15.0	15.0	15.0	15.0		

Senator BREWSTER. Mr. Carlson, I thank you for a most articulate and illuminating statement.

Let me propound a question or two. In your judgment, does the U.S. Government do less for our exporters than some of our competitors in other countries?

Mr. CARLSON. Senator Brewster, let me say in England it is almost a routine performance to go down and buy political-risk insurance. It is readily available, and it is a policy of the Government. And I think that in England, where they depend on their exports as they do, they are determined to get in on the ground floor in some of these underdeveloped countries.

This is a matter of high-level decision. But it is almost a complete routine matter.

We also find very similar situations existing in Germany, and they don't have the delays and the difficulty that we have experienced. Please understand we are not criticizing personnel because, as we read the Export-Import Bank Act of 1945, they were the basis of their decision on the ability of reasonable and prompt payment within the scope of what we might call good banking practice.

So we can't be critical of them. But we have to establish at high level and settle whether or not we feel it is important enough for the United States to get in on the ground floor of some of these countries that are developing, to give the exporter some assurance and assistance here in developing and laying the groundwork for this growth.

Senator BREWSTER. You have indicated that your own company's favorable export dollar balance last year was in excess of $49 million?

Mr. CARLSON. Yes, sir.

Senator BREWSTER. This would have been higher if you had had fully competitive financing?

Mr. CARLSON. Yes, sir, it would have.

Senator BREWSTER. Would you make a guess as to how much higher?

Mr. CARLSON. Let me put it—I can't give you a guess exactly as to how much higher, but I would say that unless we can liberalize this program, we have made an estimate that we are going to lose between

$50 to $60 million worth of export business in 1965, and it is going to be real difficult for our company to show the 15- to 20-percent gain which has been requested by our President in his program, unless we can somehow get more flexibility and more prompt action on these decisions so that we know where we stand and we can go out and consummate these deals.

Senator BREWSTER. On page 19 of your statement, you refer to competition both "inside and outside the Iron Curtain."

You have no quarrel with our insurance requiring extension beyond the Iron Curtain?

Mr. CARLSON. No, sir; we do not. But we also face, must face, this situation. And that is that, for instance, the British companies have no compulsion. They are exporting into the Iron Curtain countries. We run into competition in those countries where we can still export to, where they haven't raised barriers of one kind or another to prevent our exporting to them.

We run into increasing competition from the Iron Curtain countries.

Senator BREWSTER. Senator Lausche?

Senator LAUSCHE. Mr. Carlson, are you prepared to discuss the legal aspects of your presentation? I don't know whether you are a lawyer or not.

Mr. CARLSON. I am not a lawyer; no, sir. I am a salesman.

Senator LAUSCHE. Do you have a legal adviser with you?

Mr. CARLSON. We have no legal counsel with us; no, sir.

Senator LAUSCHE. Yesterday I did some questioning about title II, to which you just directed your remarks, and the consensus was that the board members of this Export-Import Bank now have the authority, under law, when in their discretion they feel the guarantee is sound, to give insurance in these instances which you have mentioned.

Is that or is that not a fact?

Mr. CARLSON. Mr. Lausche, as I said, I am not a lawyer, and I wouldn't attempt to interpret the instructions under which the Export-Import Bank are operating, except that I went through this very carefully and there is no reference anywhere in here that I can find——

Senator LAUSCHE. What are you referring to?

Mr. CARLSON. I am talking about the original Export-Import Bank Act of 1945. There is nothing in there that I can find that has any reference to operating in those cases where it is deemed to be in the public interest. In other words, the long-range public interest of establishing ourselves in these countries.

As I read it, this present title II goes beyond that because it says here:

The United States is fully——

Senator LAUSCHE. Where are you reading from?

Mr. CARLSON. From title II, S. 558. It says:

(2) Assure, within its statutory limitations, that the United States is fully and effectively competitive in its financing arrangements * * *.

If we are going to be fully——

Senator LAUSCHE. Just a moment. My question was, don't the members of the Board now have the authority, under the law, to guarantee the payment of these debts if the Board so determines?

Mr. CARLSON. I think that I would like to answer that in this way: I think they have the authority, but I don't believe that the interpretation of this is broad enough so that they feel——

Senator LAUSCHE. I agree with you. It now has the authority if it thinks that it is sound to do so, to issue the guarantees which you have applied for. But it has turned down your application. So you are now supporting this bill which, in section 201, states:

> In carrying out such objects—

that is, of guarantees—

> and purposes, the Bank shall assure, within its statutory limitations, that the United States is fully and effectively competitive in its financing arrangements with other countries in the development and maintenance of world markets.

Do you interpret this language to mean that, regardless of what distance the foreign countries go in giving guarantees to their manufacturers, our Export-Import Bank shall go the same distance so as to insure competition?

Mr. CARLSON. No, sir; I do not.

Senator LAUSCHE. Where would you stop?

Mr. CARLSON. We are setting up, under this new program, a committee that is an interdepartmental committee. And as I understand and read this, I understand that that committee will decide whether or not this is in the long-range public interest of the United States. And if it is, then you are going to have to make your decisions not completely on a strictly banking basis, but you have got to take into consideration this additional consideration of whether or not we deem it in the best interests of the United States to go in and establish ourselves in those countries.

Senator LAUSCHE. Now, you have mentioned an advisory committee that is provided for in this bill. Do you know that there is now an advisory committee in existence?

Mr. CARLSON. Yes, I do. It is not an interdepartmental advisory committee. It is made up of people scattered over the United States, and they meet once a year.

It seems to me that this bill says—and again perhaps I shouldn't be interpreting it—but we have to try to interpret it, and that is it says to me that where cases come up before the Export-Import Bank which are in this gray area, marginal area, that they can refer that to this interdepartmental group which are right here to establish policy and determine whether it is within the best interests of the United States.

Senator LAUSCHE. So you are recommending that there be two advisory committees, one, the existing one that is giving advice on what shall be done, I think, with the $2 billion capital structure—or is it $3 billion?

Mr. PERTSCHUK. It is $8 billion.

Senator LAUSCHE. And a new one, made up of the individuals whom this bill identifies? Why do you recommend that there shall be two advisory committees?

Mr. CARLSON. I think your interdepartmental committee, which is composed of people that are all located right here in Washington——

Senator LAUSCHE. Isn't it that you want it because you feel that you will be able to bring greater political pressure upon political officer holders than you are able to bring upon this existing committee made up of businessmen, farmers, labor leaders, and bankers?

Mr. CARLSON. No, sir; I do not. I think it is strictly a matter of an operational type of thing.

Senator LAUSCHE. Why do you think there should be two advisory committees in the making of guarantees under this Bank?

Mr. CARLSON. Because I think that this $500 million that is being set up is set up for the purpose of going into these gray areas, separate and apart from the original concept of the Export-Import Bank Act of 1945.

Senator LAUSCHE. I understand that. You think there is a gray area and we ought to approach that in a different way.

Mr. CARLSON. That's right.

Senator LAUSCHE. Reading from the bill, page 11, line 18:

> The terms on which any guarantee, insurance, or other financing assistance is provided under this subsection shall be determined by the Board of Directors of the Bank having due regard to the purposes of this subsection and may be set at less than prevailing commercial levels.

This then means that the Export-Import Bank would have two divisions, one under which guarantees are made consistent with prevailing commercial levels, and the other where guarantees are issued on conditions less than the prevailing commercial levels.

Is that correct?

Mr. CARLSON. Senator Lausche, I can't speak for the organization, but it seems to me that "divisions" is an incorrect term, and that it would be better to state two policies.

Senator LAUSCHE. Two policies?

Mr. CARLSON. Yes.

Senator LAUSCHE. What will become of this Export-Import Bank if it operates under two policies?

Mr. CARLSON. Well, you have two different kinds of countries that you are dealing with here, and I don't have any quarrel with the Export-Import Bank, and what they have done. I think they have operated within the act and done a good job.

All I am saying is that if we are serious about getting into some of these other countries, we have got to be competitive, and if we are going to be competitive, we have to meet Europe and the United Kingdom when it comes to this matter of terms.

It seems to me that in this area that we are talking about here, that this bill that is being proposed by Senator Magnuson, S. 558, makes a real contribution in moving into that gray area.

Senator LAUSCHE. Isn't it likely that everybody who seeks a guarantee will want to be placed in the gray area and stay out of what you might call the black or the white area, because the terms will be more liberal in the gray area?

So what will eventually become of the principal operation of the bank?

Mr. CARLSON. I don't think that that is a deduction that we can make, because after all, businessmen as such respect good business practice. And wherever we can compete and get the business without going into this area here, we certainly are going to do it. And I think that is true of any other business in the United States.

Senator LAUSCHE. One more question. If what you are recommending is followed, doesn't it mean that the foreign countries will establish the policy which we are to follow in the United States?

Mr. CARLSON. Only up to a certain point. I think that when it gets to a point where it is not in the public interest to go ahead and do it, then the Bank and the people that manage the Bank are going to turn it down. There is one thing certain, Senator Lausche, and that is that if we are going to operate on the basis of what might be called sound banking principles, without taking into consideration what foreign governments in Europe and in the United Kingdom are doing to help their industries get established in these countries, then we are not going to get into a lot of those countries.

They are going to get that business and we are going to be out. It is just as simple as that.

Senator LAUSCHE. Do you mean by what you just said, that in some instances we will have to abandon sound banking principles, and adopt unsound ones?

Mr. CARLSON. I wouldn't recommend that we adopt unsound ones. I think you get into an area where the risk that you take—there is risk in every type of loan operation; it is a matter of degree—I think we get into some of these gray areas where, as a matter of policy, the United States is going to have to decide whether or not it is important enough to the public welfare to become established or turn those markets over to our European competitors.

I am not trying to interpret the bill. I am not trying to set up the guidelines. But I do think that there is a real need for taking a broader look than we have at this up to now.

Senator LAUSCHE. Now, I am just going to summarize. In your judgment, the Export-Import Bank should have two policies, or let's say two divisions; one applicable to the approximately $8 billion capital structure, which it now has; and the other applicable to this $500 million operation which is proposed by this bill.

Is that correct?

Mr. CARLSON. I don't know whether they would have two divisions, but I think they would have two policies under which they are operating.

Senator LAUSCHE. No. 2, the first policy would be guaranteeing the payment of debts under what you would call, let's say, sound business practices?

Is that correct?

Mr. CARLSON. Yes, sir.

Senator LAUSCHE. And the second policy would be to guarantee the payment of debts on lesser-than-sound business policies in order to procure foreign markets for our manufacturers. Is that correct?

Mr. CARLSON. If it was deemed that these markets were in the best interests of the United States, then I would say yes.

I am no more anxious to have the Export-Import Bank of the United States in any way go into areas that offer no real future insofar as business goes, and simply get into a giveaway program. We don't want that. But we think that some of these areas that we have lost, and where the business has gone to other countries, are areas that are going to develop and grow, that it is good business to get in there, but the current risks are beyond that which any one exporter like ourselves assume.

Senator LAUSCHE. I have just one more question.

Were you connected with any group or agency that went to the Export-Import Bank and asked them to liberalize their terms?

Mr. CARLSON. No, sir; I have never asked the Export-Import Bank to liberalize their terms.

Senator BREWSTER. Mr. Carlson, on behalf of the chairman and this committee, allow me to thank you and your associates from the John Deere Co. for your help here today. Your contribution has been helpful, useful, and genuine.

Thank you.

Mr. CARLSON. Thank you, sir.

Senator BREWSTER. The next witness is Jack N. Behrman, professor of international business, University of North Carolina, Chapel Hill, formerly the Assistant Secretary of Commerce for Domestic and International Business.

Dr. Behrman.

STATEMENT OF JACK N. BEHRMAN, PROFESSOR OF INTERNATIONAL BUSINESS, UNIVERSITY OF NORTH CAROLINA

Dr. BEHRMAN. Thank you, Mr. Chairman.

My name is Jack N. Behrman, professor of international business at the University of North Carolina. As you say, Mr. Chairman, I was formerly Assistant Secretary of Commerce for Domestic and International Business, and as such had responsibility for the export expansion activities of the Department, as well as other matters such as East-West trade, investment problems, and financing overseas.

I had prepared for the committee a background analysis of the need for an expansion to the export drive which I would like, with your permission, Mr. Chairman, to submit for the record, and to speak off the cuff for a few minutese directly to the bill, S. 558.

Senator BREWSTER. Without objection your statement will be included at this point in the record.

(The statement follows:)

NEW PUSH TO THE EXPORT DRIVE

(By Jack N. Behrman, University of North Carolina)

In an article questioning aspects of the British effort to rectify its balance-of-payments deficit, The (London) Economist asked "Are Exports Clubbable?" The answer was "no," for they cannot be "forced" and appeals to patriotism and national interest are hardly adequate inducements. The U.S. Government has faced the same problem for the past 4 years and has developed a variety of inducements to marketing overseas, which it now appears have begun to work. But they are not adequate to raise exports to the desired level; still other techniques are needed. There is a question, however, of whether the techniques are useful only so long as employed by only a few countries; that is, do they lose their strength when employed by all in competitive "export drives"? In recommending still further action by Government, it is worth questioning whether the business community itself should not be encouraged to assume more responsibility for the drive—either on its own or cooperatively with government.

The reason for the Government's initiative in sparking the drive can be summed up briefly. The balance of payments had shown a deficit for nearly a decade, save in 1957, rising from $500 million in 1951 to $4 billion in 1958 and remained there for 3 years; it was cut to under $3 billion in 1961–63 but was up to that figure in 1964. While there are several means to close a deficit, the administration in 1961 correctly decided on expansionist measures rather than restrictive. The largest and most promotable item was merchandise exports—though tourism in the United States was also selected for promotion. The decision turned the Department of Commerce from a service agency into an active promoter of foreign marketing by U.S. business. Although exports were already at a level of $19.5 billion in 1960, the hope was that they could be raised by up to 10 percent annually, while keeping imports growing at a slower pace.

PROBLEMS OF PROMOTION

Several major problems were selected for treatment under the export drive. The foremost was the lethargy of American business in seeking overseas markets. While there were no sound data on number of companies which exported directly, rough estimates placed the number certainly under 20,000 and probably under 15,000; others undoubtedly exported through merchant-exporters and some had their products exported as components or parts of a finished product made by another company. But those actively pursuing sales directly were probably less than 5 percent of all manufacturing corporations.

A second problem was the higher cost of American products and consequently relatively higher prices of items which had previously been readily exported. This problem was related not only to domestic production possibilities but also to financing facilities, servicing overseas, design and adaptation of the product for overseas use, and of course to the level of taxation.

Financing of exports was itself a distinct problem, since American companies had gotten into the habit of selling only on letter of credit—frequently confirmed and irrevocable. The extension of sight drafts or 60- or 90-day credits or longer were not the general practice. The complaints from importers were frequent, and the response from U.S. exporters was simply that they did not have credit or guarantee facilities such as those available to foreign exporters.

In addition, traditional exporters had become soft in their pursuit of foreign markets, relying on agents abroad which, in some instances, did not even know that they represented some of their clients and in others did not do a creditable job of pushing U.S. products. The exporting companies seldom checked on their agents, and even less frequently did they mount a large-scale program of market analysis to see where their next efforts ought to be directed. Even where there were sales offices and an existing U.S. business community overseas, there was much left to be desired in the way in which sales efforts were mounted.

IMPROVEMENT OF EXISTING TECHNIQUES

The techniques employed in the export drive have been directed at each of these inadequacies but can still be improved.

To help stimulate interest among companies that had not previously exported, the role of the National Export Expansion Council, advisory to Secretary of Commerce on means of promoting exports, was expanded. And regional export expansion councils (REEC's) have been created and attached to the 42 field offices of the Department of Commerce. Councils are being established in major European cities for the purpose of feeding opportunities uncovered by American businessmen in their normal activities back to those in the States who might be interested. The programs of the councils in the United States include not only the holding of conferences to stimulate interest in exporting but also an undertaking of each member to bring a new company into exporting and to contact as many of the companies not exporting as the group can reach. Only on this person-to-person basis can all of the questions which bothered a company official be raised for discussion. The members of the Council direct interested companies to the nearest field office for further guidance and analyses of markets where their products might be salable.[1]

To help carry U.S. businessmen overseas, the Commerce budget for trade promotion was tripled, with existing programs being redirected and new ones added.

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[1] Regardless of how much urging might be employed, it would avail little if barriers to exports continued high. The Trade Expansion Act of 1962 was not sold to Congress as an answer to the balance-of-payments problem—a decision was made early to admit that imports would also be facilitated by the act—but the objective of reducing barriers certainly was in support of the export drive itself. Not only would a reduction of tariffs open doors for business, but the continued evidence of interest on the part of the United States and other governments in a reduction of such duties has been beneficial to the export drive. In addition, the emphasis placed on nontariff barriers, which in some instances are more prohibitive of exports than duties (witness the differentially high taxes on automobiles of the weight and size manufactured in the United States, has demonstrated the seriousness with which the administration viewed the objectives of trade expansion.

The "mutually beneficial" results of the tariff negotiations might even so help close the U.S. deficit. If the total volume of trade rises in the same ratio for each country, the trade surpluses and deficits would increase proportionately. Of course, the matter is not so neatly decided. The pattern and composition of trade will itself be affected, and the impact not equally shared by industrial and agricultural products. But the Kennedy round will undoubtedly support the objectives of the export drive by an expansion of overall trade, and the posture of more liberal trade is helpful not only in showing that barriers will be lower but also in stimulating efforts to raise productivity as a means of meeting foreign competition both within the United States and in third markets.

The Secretary of Commerce himself became the foremost exponent of the opportunities and challenges of exporting. These same programs require still greater budgetary support and should be somewhat shifted in emphasis and techniques now that they are "off the ground."

Trade fairs, centers, and missions

Three programs were directed toward taking U.S. business by the hand into foreign markets: international trade fair participation, establishment of trade centers overseas, and mounting of trade missions.

(1) The Department of Commerce had been conducting the program of international trade fair participation with funds from USIA. Fairs selected were generally in the less-developed countries; and American companies were asked to exhibit their products as part of an overall show depicting some fascinating aspect of "Life in America." Sales of U.S. products were not expected to be made from such fairs, and when they were, it was purely the effort of the exhibitor and the commercial officer at the particular post. Under the export drive, Commerce obtained an agreement with USIA that export sales would be a secondary objective of the fairs mounted from the $5 million of USIA funds. And in 1962 it obtained $3 million from participation in fairs sponsored in the industrialized countries for the purpose of introducing U.S. companies into markets where they could make sales.

The procedure in enticing companies into fairs overseas is to select a country and fair which promises the best market penetration and then to simultaneously design the U.S. pavilion and seek participants. Difficult problems of execution exist, not the least of which is getting acceptances from U.S. companies early enough to make final preparations and ship exhibits. At no time has U.S. industry shown a sufficient interest in fair participation to give the Department of Commerce an "easy go" of mounting a pavilion. A problem arises with some firms who wish to exhibit products of their subsidiaries abroad. Departmental policy, however, places first priority on sales directly from the United States; as a consequence, in some instances, U.S. trademarked goods are exhibited in the national pavilions of other countries.

The cost to a company of participating in a Government-sponsored fair or pavilion is composed of a nominal floor-space charge, transport cost of the exhibit, and the expense of a representative sent to explain the exhibit and take orders. The exhibit itself is designed by commerce and the goods returned at Government expense if not sold. All advertising of the exhibit, promotion in the country, invitations, and official representation is done by Commerce. Mounting 8 exhibitions in 1963 and 13 in 1964, in which from 20 to 40 companies participated, meant that over 500 companies were exposed to foreign markets in 2 years by this technique.

The companies exhibiting have not always sold their items instantaneously, but many have reported sales and repeat orders, with and without establishing agencies in that market. In 1964, the Commerce trade fairs produced spot sales of over $3 million and expected subsequent sales of over $42 million; in 1963, spot sales of $2.7 million were recorded and future sales of $26 million were expected. (In addition, the U.S. national exhibitions, largely in the developing countries and financed with USIA funds, netted immediate sales of $3.5 million in 1963 and nearly $2 million in 1964.) New agents or distributors were established in 1964 numbering 86 and in 1963 a total of 56. Others found the fair a useful means of checking on the effectiveness of their existing agent in that market.

Various countries have employed different means of promoting participation in trade fairs—for example, Britain's Board of Trade has paid decreasing percentages of the cost of participation in a given fair over a 4-year period, leaving participation thereafter wholly to the company. It will repeat the subsidy for different fairs for the same company or the same fair for different companies—just to get exposure to new markets. There is still some disagreement as to the best way to serve U.S. industry through the fair program: some assert that it is best to have U.S. goods shown next to competitors in a hall on a horizontal-display basis (i.e., goods of the same kind shown together); others feels that an American display encompassing goods of several kinds adds prestige and advantage in selling. To maximize impact and economize on staff, the Department chose the latter and urged companies to participate in horizontal fairs on their own outside of the U.S. pavilion. Success of these urgings is evidenced by the fact that American participants in the Hanover Fair in 1965 jumped to 50 compared with 11 exhibiting in 1964.

The fair technique can be used even more effectively, however. More can be done through existing industry associations to encourage participation, and efforts should be made to subsidize individual participation (i.e., without Government sponsorship) in fairs, such as Britain has done. The recent proposal by Senator Magnuson (S. 558), for a cooperative export development program, is a long step forward. It would permit Government support of individual exhibits by industry associations, "America Week" for certain products in an oversea market, and cooperative market analyses. The objective, of course, is to induce market analysis and exposure, which in turn should lead to market development. No one technique can serve this end wholly.

A nuance of the fair approach is the mobile fair, which is probably less effective than the fairs *in situ*, but other countries have had some success. Japan had created a mobile fair on shipboard, and Australia has recently adopted the technique. One steamship company in the United States had experimented with a program of leaving cargo containers at dockside, set up as display cases, and picking them up on a succeeding voyage. Under the new program, mobile exhibitions have been carried on ships and planes, largely at the expense of exhibitors. The movement of exhibited items is dovetailed with activities of commercial officers and other fairs or trade missions.

(2) Trade centers were established overseas at which U.S. products could be exhibited for several weeks in a horizontal show—for periods longer than at fairs and without the "competition" around. Congress approved establishment of trade centers in Bangkok, London, Frankfort, Tokyo, Milan, and Stockholm to promote agency contacts and sales of U.S. products.

Again the major problem in filling the schedules has been that of interesting companies in exhibiting. The cost is relatively small—a space charge, transport of the goods, and a representative. The cost of a market study alone would be several times the cost of participation in a center show. Even so, many man-hours are spent in attempting to inform and attract companies, which should normally be interested on their own.

The centers have concentrated on the types of products which, from analysis by the Department, appear to have the highest sales potentials. The shows have included exhibits of medical equipment, photographic equipment, auto-repair machinery, clothing and textiles, packaging machinery, and have included exhibits by the Department of Agriculture of importable foods. Each show runs from 2 to 3 weeks, with ample time for publicity and follow through by representatives.

These shows have been programed with the full participation of commercial officers at the embassies in the host country and with officers in adjoining countries assisting in the promotion of the shows. The centers in London, Frankfort, and Milan have attracted potential buyers from neighboring countries, and it is hoped that the Stockholm center will do the same. The Bangkok center has been handicapped by the scarcity of foreign exchange allocated for both travel and dollar purchases by neighboring countries.

The centers have been considered the most effective promotion technique in that they provide a longer exposure, more buildup of the show, exposure to retail or wholesale buyers only or to manufacturer-customers (i.e., the public is not invited as it is to fairs), and less diversion of the buyers' attention to competitive products. In 1963, 25 promotions were held, producing over $5 million in sales from the floor and over $22 million of expected sales; and in 1964, 36 promotions reported $9.4 million in sales on the spot, with $83.4 million expected later. Agents gained through these shows were reported at 202 in 1963 and 168 in 1964.

The Department identified 20 major cities over the world which could sustain such centers and proposed a program to Congress for establishing 2 or 3 new centers each year. The House Appropriations Committee has remained unconvinced of the need to expand so rapidly (?) and has kept the program far below its potential—both in numbers of centers and staff support at home and abroad.

A small-scale center has been established in the form of a "sample display service" at a few of the embassies overseas. The technique is too new to show results as yet, but it provides an exposure for actual products and gives the commercial officer something tangible to promote. It should certainly be tried at more than two embassy locations.

(3) Trade missions were begun by the Government in 1950 in connection with the aid programs to demonstrate the American free enterprise system to foreign countries. Prior to 1961, missions were mounted mostly in the developing countries out of funds. While some opportunities for trade were brought back by the businessmen who were members of the mission, 200 or so such opportunities

was considered a good report from a 4- to 6-week mission. Funds appropriated to USIA, indicating its "image and impact" objective.

In 1961, the funds were shifted to sending missions to the industrialized countries, for the purpose of discovering potential export opportunities and acquainting foreign businessmen with products available in the United States. (Incidentally, the missions might also discover and report on licensing or even investment opportunities.) The mission members are drawn from companies willing to permit their officials to engage in a pro bono publico activity, for members are not permitted to do business for their company while abroad—otherwise, violation of the conflict of interest regulations might occur.

By a careful selection of countries and product areas to be represented a more effective job of obtaining clues to business potentials has been obtained. These missions are narrow in scope—rather than being "general business" missions with a trade expert along, they are missions on "automated machinery," on "packaging machinery," on "household appliances and consumer goods," on "chemicals and plastics," etc. And the countries are selected to gain maximum market results. As a result, the number of specific trade opportunities uncovered has increased threefold and fourfold.

Still, the mission members are unable to "do business" for themselves, and being on the ground they have discovered some possibilities that were too hot to wait on. If they are not picked up, they might be lost. To maximize the benefit from funds available and to permit members to "do business" for themselves—as, incidentally, members of Japanese or German trade missions are able to do—the Department decided to sponsor (but not finance) industry-supported missions. While trade missions have been mounted by various private groups, and some State governments in the past, they have not all been backed by facilities of the Department of Commerce. In order to give this support, yet reduce the drain on Department funds, the offer was made to various trade associations and business groups to provide services to any mission they wished to finance for the purpose of discovering trade opportunities overseas. Several groups have responded, including some State governments, such as Indiana, and some trade associations, as well as the NAM. Industry-organized missions rose from 3 in 1963 to 9 in 1964 and over 20 are expected to travel overseas in 1965. The Department also assisted some 20 business organizations in their group-travel plans overseas during 1964. Many have done considerable business "on the spot," and all have considered their trips "successful." One, the men and boys' wear group, found its "success" in a better understanding of the market overseas and the nature of its competition. Its major conclusion was that direct investment or joint ventures would be the most likely technique for penetrating the European market—a conclusion not wholly in support of the objectives of the export drive. However, in the nine industry-organized missions, covering a wide range of products and services, it was estimated that several hundred millions in sales could result. It should be a part of the Government's objectives to shift the type of support more to the private trade mission, keeping its own missions for areas or product groups where the potential is longer run and requires a more tentative testing. And various business associations should step forward to assume greater responsibility. It would do much for the association program, the members, and the balance of payments.

Other techniques

Apart from its continued gathering of commercial and economic intelligence and the improved presentation of that information in its weekly journal, International Commerce, the Department of Commerce also has expanded the number and quality of trade opportunities reported by commercial officers overseas. No means has been found of checking the extent to which trade opportunities were actually drawn upon to obtain business. Some inklings come from companies requesting further information or later discussing a problem with departmental officials; and some come from officials of other countries who have reported that they siphoned off opportunities reported by the Department.

In the face of increased demand and lack of funds for staffing, the commercial service overseas has bent all efforts to the export drive and multiplied the trade opportunities reported. Channels within the Department have been streamlined to get the opportunities to potential exporters, both directly and through the field offices and trade associations. Field office personnel have called businessmen who they think should be responsive and presented the opportunity as fully as possible. A followup procedure has been instituted to assist in discovering what kinds of opportunities are taken up and why not others.

The burdens on the commercial officers overseas—including handling visitors, replying to inquiries, uncovering trade opportunities, reporting on commercial and economic conditions, handling trade fairs, missions or centers—has increased rapidly. And while efforts were made through an agreement between State and Commerce to upgrade and improve the service, Congress did not see fit to expand the number of commercial officers—despite the fact that the workload of the 149 officers overseas plus some 350 locals (compared to Canada's equal number of officers and Britain's and German's severalfold more to care for a smaller volume of trade) increased severalfold.

This increase in workload is evidenced by the fact that the Department sold 20 percent more credit-rating reports in 1964 than in 1963—all obtained through commercial officers overseas—and 45 percent more reports on potential trade contacts (a short market survey) than in 1963, and 1963 was up significantly from 1962. The number of business visitors and letters of inquiry has risen sharply also. But despite the clear need for more staff, the House Appropriations Committee has opposed—partly for fear of downgrading the State Department's authority, though State itself testified strongly in favor of increased staffing. The recent initiative by Senator Magnuson in proposing a "Trade Development Corps" is hopeful; it would draw from business and universities individuals capable of helping to relieve the burden of commercial work overseas. The idea should be supported and modified as needed to obtain maximum participation.

A technique only approved in 1964, but already employed by other countries such as Canada, is the "reverse trade mission" or "buyers' mission." The procedure is to offer foreign buyers subsidized U.S. production and marketing centers. The mission is usually timed to coincide with a fair or exposition, but the members may be toured over the country to places of their interest. Although there are problems of who to select and how to limit expenditures for entertainment, etc., they are being solved. The technique should add considerably to foreign interest in U.S. goods and should be examined soon to see if it merits wider use and adoption by trade associations or other business organizations.

To focus attention on exports, the President assigned to Commerce the "E" used in World War II for production excellence. Commerce has awarded it to companies expanding exports significantly. Many companies have used the program to stimulate sales, and the record of more than 500 awards—for which 2,500 companies applied with detailed justifications—shows the esteem in which the award is held. Not all companies receiving it, however, have used it to the full in promoting company interest in exports; more should be done to help publicize the awards and the matter of how to handle repeat winners has not been solved.

An additional factor was introduced into the drive as the Defense Department became more interested in the balance-of-payments impact of its operations overseas. It began its own export drive for military equipment. Although it could not substitute direct sales for grants of equipment in all instances, it did obtain such a shift in some cases. Countries which were purchasing arms for their own defense—i.e., not in conjunction with a multilateral defense system—were approached to see if U.S. equipment (obsolete or new) could be sold.

This initiative did not sit too well with some elements in the State Department, which did not want to see the U.S. Government confronted with a charge of facilitating war or riot through the sale of arms. Also, some U.S. manufacturers feel that their own direct sales are injured by Defense's sales from stocks. The sale of military material has contributed, however, to offsetting the deficit.

Export financing

Sales of military material were facilitated by credits obtainable from DOD. Sales of nonmilitary items are supported by funds from Eximbank or the DLC of AID. But, the credit facilities in 1961 were not considered comparable to those of at least European competitors and many opportunities for export were lost. After a careful assessment of the ECGD of the British Board of Trade, of Hermes in Germany, and Coface in France, the Eximbank embarked on extensive discussions with U.S. exporters, banks, and insurance companies to determine how a program might be established and what its scope would be. After a year of negotiation, the Foreign Credit Insurance Association was established, now backed by over 70 insurance companies.

The Eximbank provides the backup political risk coverage, with the FCIA assuming the commercial risk coverage. The terms of the guarantees vary with

different time periods and according to the country of import. There are four policies available: short and medium term, covering either comprehensive risks or political risks only. The short-term policies require coverage of all foreign sales, with premiums averaging six-tenths of 1 percent of total sales. The medium term may cover only a selected group of countries or one single sale, and the rate is of course higher, varying with the country coverage.

The mechanism of obtaining guarantees starts with the local bank, who is approached by a potential exporter for credit on potential account receivable held against a foreign importer. If the bank is sufficiently aware of the facilities of the FCIA it will ask its correspondent in New York to arrange the guarantee or do so directly. But the road is not always smooth. The local bank may be ignorant or unwilling to assume its share of the risk, discouraging the potential exporter. The FCIA may take too long in assessing the credit-worthiness of the importer, though the procedure has been speeded up considerably. The Eximbank may not approve of its participation promptly, and the business may go down the drain in the meantime.

On its own part the Eximbank has modified its procedures and criteria for lending so as to expand exports of various types of machinery—e.g., petroleum equipment to state-owned companies overseas, and textile machinery (despite the problems faced by the domestic industry from imports)—and to speed up its approvals and also to provide advance commitments permitting U.S. suppliers to bid on a foreign project and include financing. Although the Bank has given greater attention to exports, some critics still think Exim is oriented too much toward the "investment" and "project" approach.

The problem of the "project" approach has not been fully aired. It centers around the question of whether the applicant for a loan from the Bank or AID should be the foreign government, or the U.S. exporter, or his importer overseas. The Government agency has leaned strongly toward the foreign government bundling all supplier credit needs into one project which would make a tidy and sizable loan which it could oversee. Potential exporters have felt that this procedure too frequently opened the bidding to competitors in the United States who had not incurred any of the expenses of sales promotion. Thus, the U.S. supplier who sought out the business and made the technical analysis might find the order going to someone who had not borne the development costs.

NEW AND DIFFERENT TECHNIQUES

Some have argued that all business deserves from Government in support of exports is some information and persuasion. If exports are "good for business," Government shouldn't have to provide marketing aids. Control techniques were rejected which would have injected the Government even further into export decisions but which might also have significantly increased exports. Thus, the techniques so effectively used by European countries after World War II were passed over quickly—a reservation of production "for export only," exchange discrimination or retention schemes, and price controls. Secretary of Commerce Hodges did, however, urge American business to "earmark" 10 percent of their production for "export," in an effort to encourage a closer look at the foreign market and to increase the percentage of U.S. movable production that has traditionally been exported—a proportion that has remained around 8 percent for the postwar years.

A technique employed by other countries was also rejected on the grounds that it unfairly restricted competition, this was the "package deal" which has been offered to foreign governments on major projects. The practice of other governments is to support, by various means, the economic and engineering studies with the understanding that if the project is decided upon, they are to be given the job of construction. An alternative procedure is to offer economic analysis and engineering services free for the purpose of deciding on the feasibility of the project and drawing up specifications for bidding, but drawing specifications in such a way that their own industries have an inside tract in the bidding; the financial cost of this "free offer" is lumped into the construction phase. Many borrowing countries have found their cost escalating once they are in the project, securely bound to the exporter-constructor. To facilitate this kind of operation, the German Government stands ready to bear half of the cost of seeking such overseas business, if the potential supplier is unsuccessful in obtaining the final contract. Germany and other countries, such as Italy, France, and the United Kingdom, will provide their suppliers with advance commitments of the entire financial package, which permits them to make assured bids at an earlier stage

than American bidders can and thus satisfy quickly the requests by foreign governments for financial terms at the time of the bid. U.S. suppliers have frequently been able only to say—"you can apply to the Eximbank and they will give the financing 'serious considerations.'" But this has seldom been satisfactory. In most instances, the terms of financing are more important to the foreign government than the total cost of the project. But, such procedures are a disservice to the foreign government and the United States has rightly refused to enter into this type of financial competition.

A third approach which should be given serious consideration is that of promoting the use of Webb-Pomerene associations and cooperative sales and service antics abroad. The W-P associations permit U.S. companies to combine for the purpose of exporting and appeared to some officials as a very useful means of assisting small manufacturers. The number of such associations has declined over the years, however, partly because of the Damocles sword of antitrust violation and the attitude of the Federal Trade Commission. Although the latter asserted that it would be willing to clarify its position on the associations, no strong promotional push was mounted to encourage their formation. Although Commerce maintained a small-scale educational program, resources were not available to make the extensive study necessary and undertake a full-scale promotional effort. If agreement could be reached with FTC and Justice, it is a technique which should be given a boost.

Senator Magnuson has also proposed establishment of cooperative sales and service centers in the less-developed countries. U.S. exports to these nations have suffered because of the lack of established sales channels and of servicing facilities. Where markets are small, such activities are costly. Cooperative financing and staffing, with U.S. Government support would drive a wedge into the markets. If carefully worked out, such a program of business-Government cooperation could raise exports in markets which have heretofore been difficult to penetrate.

A fourth technique that has been examined carefully and seriously proposed within the executive branch and by the business community is that of a tax incentive for exports. This technique has been used by Japan and Australia, the former allowing deduction of up to 4 percent of export sales from taxable income. And Britain has given it serious consideration as a means of meeting its deficit problem. Although the U.S. Treasury opposed such an incentive, there has been no firm rejection of it as yet. Two problems require resolution: the first relates to the specific incentive to be used and the second to how to obtain acceptance under the GATT. These two are, of course, related; even if they are solved, there is no certainty that Treasury would overcome its objection in principle to using the tax system to alter business decisions—nor for that matter is it certain that the House Ways and Means Committee would approve it. However, if the trade surplus falls critically, serious consideration may have to be given to this technique. It is worthwhile, therefore, to outline the alternatives and their relation to the GATT.[2]

Since the objective is to obtain an increase in exports, the incentive should focus on expanding exports effort rather than permitting a windfall to those who are already exporting. It should also avoid, if possible, giving an inducement to changing the form of doing business simply to record an increase in exports—such as might occur if a company sold domestically through a merchant-exporter and shifted, after passage of an incentive, to exporting directly and thereby record all of the exports as an "increase." These are problems in the definition of the "increase in exports," but they can be resolved.

One means of avoiding this problem of definition is to place the incentive not on increased exports (i.e., performance) but on effort, such as increased R. & D. expenditures identified with exportable products, including costs of adaptation of the product for export, or increased sales expenditures, such as advertising overseas, travel of representative, etc. These expenditures could be "expensed" on tax returns at 150 percent or whatever level was considered necessary to

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[2] The Economist (London), commenting on Oct. 31, 1964, on the recent imposition of a 15-percent sucharge on British imports to help meet the payments deficit, stated that "the government would have done greatly better to * * * concentrate mainly on encouraging exports instead. There are apparently two reasons why it did not do so. One is the belief that export subsidies would have offended even more gravely than does this sudden slashing protectionism, against the letter of the General Agreement on Tariffs and Trade and of other interantional trade treaties. The obvious answer to that is, so much the worse for the letter of GATT and other international trade agreements. It really is important to start rethinking the logic behind them * * *."

induce expanded activity. The difficulty with this alternative is that of identifying specific expenses with potential increases in exports. Thus, R. & D. expenditures do serve domestic sales, existing export volumes, and future sales; and company planning might well have already included large sales expenditures to penetrate new markets or even to maintain existing market shares. But if efforts are rewarded rather than those who do in fact increase exports, tax costs may be incurred without raising exports; efforts to sell more, especially if unsuccessful, might merely lead to a larger deficit, particularly if large expenditures were made on warehousing and retailing facilities.

To provide an incentive on results, a credit could be given against U.S. taxes on additional income from exports over a base period. This would undoubtedly provide a windfall to the company whose exports were on an upward trend anyway, whether through its own efforts or not. But this element could be reduced by ratcheting the base period upward each year, giving the credit only on the yearly increases over the average of the past 3 years or so.

Based on increased foreign income from exports, the tax credit might be a reduction of the tax by 14 percentage points as under the WHTC or even greater. The credit might well be restricted to a 3- or 5-year duration, hopefully tied to the period of continued payments deficit.

Tying the incentive to the direct tax on corporate income from abroad gives rise to a problem under the GATT. Under a supplementary agreement to the GATT, the remission of indirect taxes is not considered a subsidy to exports, but a remission of direct taxes is likely to be considered a subsidy.[3] The reasoning behind this distinction is that indirect taxes are intended to be borne by the consumer and the taxing government has no tax jurisdiction over foreign consumers; thus, the remission of such taxes on exported items merely unburdens the foreign consumer from paying taxes to a government from which he obtains no benefit. Direct taxes on corporate profits, however, are not considered as passed on to the consumer and the same justification presumably does not exist for their remission.

There is a lack of similarity in the argument, however, that has not been thoroughly examined, though it should be. As the matter now stands, countries which rely heavily on indirect taxation can readily remit taxes on exports, as Britain did recently along with its surcharge on imports to help meet its deficit problem; Germany, France, and the United States provide the same remission, but in the U.S. case, the effect is small. To gain an equal reduction in foreign price, the U.S. corporation would have to price its products differentially between the home and foreign markets, or it should receive a direct subsidy. The former leads to a charge of dumping and the latter to violation of the GATT. But, the reduction of a corporate income tax, which was permitted under the Western Hemisphere Trading Corporation (set up prior to GATT), might well not be considered in violation of the GATT subsidy provision in that the provision states that a "subsidy" must result in a lower price on exports.

This lower price could be evidenced either in a differentially low price on exports or a lower price than prior to the tax incentive on both domestic and foreign sales. If the latter occurred, it would be difficult to demonstrate that the reduction was a result of the tax, for it would be a small percentage of the tax credit; in addition, the cut would be masked by other price variations. As to the possibility of the incentive leading to a cut in the foreign price, as would be the result of a direct subsidy, the incentive is tied only to the increase in exports and thus does not provide sufficient funds to sustain a price cut over the entire range of exports and to the extent that the credit is passed on in lower prices it becomes less of an incentive. Thus, for the incentive to have its maximum effect, it should not be passed on in a price cut. Also, the same tax theory which was the basis for differentiating direct and indirect taxes would indicate that a direct tax, remitted, is also not passed on to the consumer. Consequently, the subsidy provision of the GATT should not be applicable.

However, matters are at a standstill within the Government. Germany indicated that it was preparing to raise its border taxes, and in order to stop this move, the U.S. Government represented in OECD that all tax initiatives should

[3] For this reason it has been suggested that Britain shift its tax structure toward turnover and excises, which can then be removed, under GATT, on exports. It would appear much better to adjust GATT rather than change the tax structures for what may be temporary expedients. However, some tax experts are now arguing that a tax on value added in manufacture is preferable to an income tax in any case. If so, both foreign and domestic benefits would arise from such a shift.

be held in abeyance pending a study of the impact of tax systems and remissions on exports. In the meantime, the U.S. export drive proceeds without the strongest magnet to attract the attention of recalcitrant management—that of a clear increase in profits from expanded export effort. It should be resuscitated at the earliest possible moment and given full consideration.

There are some additional objections to the tax incentive approach voiced by economists and tax experts—other than that it warps the tax system. One is that it would warp business decisions by turning attention away from the domestic market to the foreign—which is of course precisely what is desired. This warping would be damaging, however, only if the economy were in full employment; it might still be necessary to permit such a warping if the payments situation were badly out of balance—as occurred in Europe after World War II. A second objection is that tax revenue is lost; this comment also assumes full employment and the use of resources in the manner producing the highest level of taxable income, for it is only in such a circumstance that the tax incentive would cause a loss of revenue to the Government. With the conditions of the real world as they have prevailed, the incentive would create business, both at home and abroad, and raise taxable income; even with a tax credit the total revenue of the Government should increase.

A final measure, which has been proposed recently by Senator Magnuson (S. 558), relates to the problem of export financing to the nations which are easing out of the LDC category and standing on their own, but somewhat shaky, economic feet. Although the Eximbank has recently turned its attention to financing projects in the industrialized countries, mainly Europe, on competitive terms, there are countries which it considers too risky but which also are not extended loans by AID. Nor are commercial banks in a position to extend medium or longer term credits to such countries. Thus, there are projects in countries for which U.S. financing is simply not available—leaving the field to other countries. There thus appears to be a gap in financing—not in the facilities which are available in general but in the classification of countries or projects for which the facilities may be used. It would not appear that there are any significant means of financing which are not available to some country or other—if one includes in the list the IDA, IFC, IDB, IBRD, DLC, and AID, Eximbank, ADELA, and consortia of private banks. Financing on practically any terms can be produced either from these institutions directly or by a combination of them, as has occurred in some consortia of both public and private lending institutions.

But, what is happening with the countries that are rising to their own economic feet is that they are being removed from the "critical" list but not placed on the "commercial opportunity" list. Just as the Department of Defense is finding it difficult to switch its mentality from mutual defense assistance to military export sales, so the financial agencies have paid little attention to creating an "American commercial presence" for the longer run in the countries which have received economic assistance. As a consequence, there is no ready means of financing exports on an "almost commercial but not quite" basis for these countries; even the FCIA, based on their own and Eximbank's assessment of creditworthiness, keeps the premium on guarantees to such countries relatively high and requires considerable coverage of export business elsewhere in order to take the risk.

Without some such facility as this, many opportunities have been lost to use our economic presence to increase the contacts for longer run commercial sales—opportunities which have not been missed by our major competitors. What would appear to be a solution is (*a*) AID giving a priority to projects which have a future commercial impact, leaving some of the less desirable projects to others (rather than removing itself whenever any alternative credit source steps up) and (*b*) the Eximbank adopting a criterion of lending that permits it to finance more risky projects when it is in the "national interest" not to lose a given opportunity (e.g., the loss of business sales to Bolivia to a Czech company.) To achieve the latter, Senator Magnuson has proposed a $500 million fund within Eximbank—only one-fifth of the amount set aside by the British for this purpose.

It is recognized that such a tactic raises the very serious question of credit competition. It is serious not only for the creditor but also for the debtor. Many of the developing countries particularly are overextended on short- and medium-term credits, which they can obtain more readily, so that they reduce their creditworthiness for the longer term project loans which they need. To press forward on a credit war (which many businessmen say we are already in) would only accentuate their difficulties. However, to lag behind is merely to lose the business to a less scrupulous supplier. Suggestions have been made by other countries to come to some agreement on extension of credit particularly

to the LDC's, but the Berne agreement limiting commercial credit to 5 years has itself not been fully honored, with charges that loans much longer than 5 years and even amounting to 120 percent of the sale, have been offered. Only if there were ways of policing the agreement would it make much sense to sign a new compact.

Such competition is serious also for the creditor country. Thus, the attempt by the Eximbank to enter the project financing market in Europe on terms low enough and long enough to get new business for American companies ran into objections from American commercial and other banks. These felt that Europeans would borrow at regular commercial terms unless the Bank provided subsidized credit, and they objected to its using governmental funds for lending to the industrialized countries. Some businessmen objected to the same action on grounds that it provided their competitors with capital on terms which they themselves could not obtain in the United States. Thus, a credit struggle of this nature is upsetting to normal business operations and relationships. Once again, the burden may have to be borne if the payments deficit is considered so pressing as to call for the recent restrictive measures on capital; such loan funds should be ready for a prompt stimulation of exports.

EFFECTIVENESS OF THE DRIVE

The call for a quantitative measurement of the success of the export drive has come from Government and from business. Treasury wants to know so that it can judge better the prospects of closing the payments gap; Budget Bureau wants to know so that it can measure the benefits against the cost; State wants to know so as to justify increases in commercial officer positions; Congress wants to know so as to justify appropriations; and of course Commerce itself would like to know so as to judge better the efficacy of the different techniques and therefore where to place its emphasis, to say nothing of having a better presentation to the Bureau of the Budget and Congress. And business wants to know so as to decide where to put its efforts. But a quantitative measurement is probably impossible; even an approximation is extremely difficult and hazardous.

It is hazardous because claims of successful increases based on aggregate movements in trade can be so quickly offset by drops in the volume of exports, either to a country, a region, or in total. It is difficult because any attempt to obtain information on particular increases resulting from trade promotion activities runs into business reluctance to divulge data on sales. Although individual instances of sales out of a given trade fair or trade center can be cited, they would not add up to anything near the total impact on export sales. The contacts made at fairs and centers as well as during trade missions lead primarily to agency relations, which in turn may or may not produce sales to the level of expectations. And, even direct sales on the spot are frequently "feelers" to test out the market; repeat orders may be many times the initial one. Finally, promotional efforts take time to come to fruition; especially lengthy are those which start at the beginning, with a reluctant potential exporter.

There are some specific evidences of new export activity. The "E" award program itself has called forth accounts of new initiatives taken and successful penetration of foreign markets; over 2,500 applicants have told their stories, not all having been sparked by the drive, of course. Also, the field offices of the Department have recorded several hundred companies newly interested in export data and opportunities. And the FCIA noted in its first year that about 17 percent of its applicants for guarantees were new to exporting. Finally, spot checks of what has happened to some of the trade opportunities published by the Department demonstrate that business has been done. And some quantitative results were noted in our discussion of trade fairs and trade centers.

It appears that 1964 is the first year to show significant results of the export promotion program. This is the first year that export increases cannot be broadly attributable to a faster growth rates overseas. Also there was virtually no increase in Government-financed exports, so the $1.7 billion rise in the export surplus was attributable almost wholly to commercial sales. And increases in 1964 were seen over a wide range of countries and commodities. For example, exports to Canada were up by 15 to 20 percent in each month of 1964 over the same months in 1963; those to Latin America were up as much as 30 percent in 1 month, averaging about 10 percent above 1963. Since April 1964, exports to Africa and Asia have shown substantial monthly increases over

1963. And exports to Europe after the first quarter of 1963 showed monthly increases of from 10 to 25 percent.

Although increases were noted in all commodity categories, those in crude materials and foodstuffs were small, as were those in manufactured goods and beverages. But the increases in semimanufacturers and manufactured goods—categories closely affected by the export drive—ranged from 10 to 25 percent each month over 1963. And these increases were spread over all major nonagricultural categories save petroleum. Thus, monthly exports of textiles, automobiles and parts, chemicals and products, iron and steel, and, most significantly, all machinery categories, were 10 to 25 percent over 1963 monthly levels. These volumes cannot be explained by Suez type oil exports, or one-shot sales of aircraft. If the recent trends continue, it can be concluded, I think, that the export drive has taken hold and justifies the faith of those who supported expansionist rather than restrictive solutions to the deficit.

If even half of the increase in the trade surplus from 1963 to 1964 can be attributed to the export drive, it is well worth expanding that effort—even twofold or threefold. A $500 million contribution to the deficit, even at a cost of $10 million, would be much less costly to the Government than the buy American policies of the Defense Department and much more effective than restraints on direct foreign investment. And, once the deficit were narrowed appropriately, governmental support and tax incentives could be removed without leaving a legacy of withdrawal—such as the capital restraints will do. Had Congress been more farsighted, we would be further down the road to an expansionist solution to the deficit now. It is still not too late, and the Magnuson initiative should be grasped firmly.

In deciding among means of meeting the payments deficit, it must be remembered that business operations are not divisible; exporting is not a substitute for a flow of capital or resources (as trade theory would sometimes suggest); nor is overseas investment (capital movement) a substitute for exporting (trade). While each will have an effect on the other, the impact is not one of complete substitution. Rather, the impact of investment is that of altering the nature of trade and even its direction, but it may well increase trade. Given the nationalistic demands that production be localized, trade is not always an available alternative; it would decrease solely from the regulations of government. Investment in that economy, then, means that some trade can open up; the origin of the exports may now be different; the composition may be different, with component parts or resources and materials being exported where finished products were before; or additional products in a line may now be exported where previously only a few categories were sold into the foreign market.

Our own export drive is matched in objective, if not intensity, by the promotion activities of several other countries. This competition could mean merely a shuffling of the deficits periodically from one group to another; thus, for the first time since its formation, the Common Market sustained a trade deficit in 1963. EFTA countries have been in deficit on trade account for the past 5 years, as have the other European countries taken as a whole. In 1963, among the European countries, only France and Germany held a trade surplus. The basic balance for Europe remained sound, however, averaging around $2 billion over the years 1959–63, and at $1.5 billion in 1963. Thus its deficit on trade account was offset by the surpluses in the service account, and the net deficit in transfer payments was more than offset by the surpluses in long-term capital. But, even if basic balances remain favorable for Europe, it is unlikely that the trade balance will remain steady. The current drive of Britain will likely be duplicated by Italy and others, making still more difficult the penetration of U.S. exports. And their techniques are not limited to those used by the United States.

However, if the attitude toward imports can continue to be liberalized, with doors opening as well to exports of the less-developed countries, the export drives will take on the role of advertising; a stimulation to demand, unknown in its precise benefits as compared to costs, but necessary to maintain market position. The cost to each country will undoubtedly vary greatly, and the benefits may not always be commensurate to the cost at any given time, but all will benefit from the impetus to trade, for trade is still basically a means of increasing productivity and thereby raising the standard of living of all participation.

Care must be taken, however, that the programs do not turn into subsidies, warping the composition of trade. Undoubtedly, the composition of trade will change with growth overseas and increasing volumes of exports and as local manufacture replaces specific exports. The encouragements to export should not, however, be so specific as to create this danger.

Another nuance arising from the export drives will be the increasing pressure to do busines with the Soviets, and later, China, as well. This pressure may not arise from within the U.S. business community, which is wary of taking public positions on so sensitive a matter, but there is no doubt that we will lose commercial footholds in the Soviet countries. Senator Magnuson has proposed an advisory council for expanded trade to assist in sales of nonstrategic goods to Soviet countries. Other countries are by no means so chary of exporting, even with attractive credit terms, to the Soviet countries and to China at times. Their export drives will undoubtedly include the markets in these countries. To date, ours has not, in fact there has been a decided schizophrenia on export expansion, depending on the country of destination. How long this can remain is a political question, but it sits on an economic pressure cooker.

Finally, assessment of the export drive should not be concluded without comment on the impact on business attitudes toward Government. These promotion programs involve a greater dependence on governmetal initiatives and support. To some this moves too close to Government direction. To others it merely reflects the facts of today; viz, business needs Government to open closed doors and Government needs business to implement overall policies. The result should be a closer working relationship and appreciation of the need for effective cooperation between business and Government—both at home and abroad.

Senator BREWSTER. You may proceed.

Dr. BEHRMAN. S. 558 comes at a time when there is some feeling that the export drive has popped off. My own feeling, on the contrary, is that the export drive is just taking hold, it has had about 2½ or 3 years of close attention from the administration, and the exports in 1964 would show a monthly average across-the-board increase over 1963, in which almost all commodities are up in volume to most all countries of the world, and indicates that the drive is just now beginning to take hold.

The commercial exports which were promoted partly by the drive are responsible for almost all of the increase in the export surplus in 1964, rather than any activity on the part of direct Government sales, AID, or military sales. A drop in that export surplus now by a slackening of the export drive would in my mind put still greater pressure on other elements of the balance of payments.

If so drastic a measure as curtailing investment has been considered necessary, there certainly should now be no slackening of the export drive. The drive, however, is desirable also as a stimulant to U.S. growth, and the evidence which the Department of Commerce has gathered recently on the origin of U.S. exports indicates that the increase in exports was shared in almost all States of the Union.

It is also necessary in opening up for the Western World the rest of the world to free market trading tactics in competition with state-trading tactics of other countries. The drive is also useful, of course, in raising free world living standards, because trade is nothing but a technique of increasing productivity.

As to the bill itself, Mr. Chairman, I would like to speak for a few minutes on the promotional techniques because I think that, at least as far as title I is concerned, there are some misconceptions as to its usefulness to business and as to how it can be most effectively used. In fact, you have heard testimony this morning and on other days, and there has been comment from the business community that title I is not particularly useful to them; title II would be.

Let me put a reverse emphasis then on these two titles, if I may.

Title I would be of considerable use in the export drive, first as to the Trade Development Corps, because there is a need for an in-

creased staff of personnel overseas assisting U.S. business in exports. This need has been recognized for the past 2 or 3 years by both the Departments of State and Commerce in testimony before Appropriations Committees of Congress to the effect that a substantial increase in numbers of personnel working on commercial affairs overseas is necessary.

The proposal of the Trade Development Corps is to increase this staff by tapping private business and other manpower resources. I think it is quite clear from the experience of the International Executive Service Corps that the business community is willing to make contributions of manpower. However, my own feeling is that that particular program is sufficient drain on the business community and that if the Trade Development Corps is to be mounted—and I think it should be—that it should tap additional sources of manpower.

So far as I know no comment has been addressed to the fact that there are growing out of the business schools of the United States a substantial number of students at the graduate level, as well as the undergraduate, who are interested in oversea activity and seeking experience fairly promptly. The general procedure of taking an individual out of graduate schools is to put him into the domestic company or some aspect of international activities in which he may not be fully using his training.

I have talked with some businesses and they indicate to me that they would look rather favorably on a procedure whereby graduate students having had work in international business would gain additional experience firsthand in operations of trade promotion by being attached to the Department of Commerce or some Government agency appropriately financed, on a procedure for an objective such as is indicated in the Trade Development Corps.

I understand full well the problems of attaching such individuals to the Department of State and putting them in the Embassy. I would not so recommend. I would recommend on the other hand that the provision be modified to include financing and support of persons having adequate graduate training attached to the Department of Commerce for overseas training use, along with the trade center programs which need more market analysis and followthrough; the trade mission programs which need additional staff, sometimes to stay behind the trade mission and follow through on the contacts; the trade fairs program, which also need extra market analysis and followthrough, and specific market studies.

Many graduate students are well prepared for market analysis and they have a foreign language and can stay overseas for 3, 6, 12 months, for the purpose of making the analyses which business cannot make broadly enough, nor which the Department of Commerce has sufficient staff to carry out.

These individuals in my view should not be kept in Washington longer than 2, 3, 4 weeks for training and then sent overseas for the direct experience. This experience will in some cases substitute for the training which a corporation would have otherwise put the individual through, and in that way accelerate his promotion and contribution to the private sector.

Turning to cooperation with business associations in the second part of title I, there is certainly need for a closer cooperation in the trade

promotional program and business associations, not on a formal basis, probably as indicated in title I, but more on an ad hoc and cost sharing basis. The objective here should be to move the trade promotional program as rapidly out of Government in to the private sector as possible. Getting the business associations to assume more and more of the responsibility, which is logically and economically appropriately theirs to promote their own interests overseas. This can be done through specific market analysis where the Department of Commerce, for example, would say it appears to us that there is a good opportunity in such and such a country and such and such an area.

Turning to the industry, the trade association might ask, Are you willing to share the costs of making such an analysis and turning the results back to the industry? This has been done in a very few cases in the past successfully, but it should be expanded.

The same goes for special exhibitions. American business does not use the technique of trade exhibitions overseas anywhere near sufficiently. There are over 150 such exhibitions overseas to which business could join, and only about 18 or 20 sponsored by the Department of Commerce with business.

Business does enter some in which the Government does not a pavilion, but a greater cooperation in this regard, partly financing some of the costs of participation of an individual firm in an exhibit where the Government does not normally go, or helping to mount a solo exhibit in a market which is particularly useful for a given industry, would stimulate business interests in this activity and gradually permit its phasing out into the private sector.

The same goes for the technique of private admissions whereby an industry association might well say it appears to us that it would be a good thing to have some potential buyers over here to look around at possible goods and production facilities that we have, but the cost is rather extensive. Could you help us with the arrangements and meet part of the cost? The Government might well then decide to do so, and then as the technique grows, move it into the private sector.

For this, Mr. Chairman, it is obvious that legislation is not required in terms of the rules of the Congress, the Budget Bureau. They obviously would advise that these activities go under a general statute of the Department of Commerce already, and only appropriated funds would be necessarily required.

However, it is also good to have a clear expression of Congress as to the extent of a program and as to the specific objective. And here the objective would be to expand particular techniques and move them into the private sector as rapidly as the private sector will respond. This would then be in a sense, a sense of the Congress provision of the act which I think would be highly useful.

Thirdly, the sales and service centers have been developed conceptually out of a need for a point development of specific markets, markets which are so small that the cost of not only selling but servicing the long-term association between a company and its customers, is very difficult to carry out.

The problems which exist in mounting such a technique are those of selection of the market areas which in my view should be the less developed countries, but even there they would have to be very specifically defined, and this can only be done in cooperation with Gov-

ernment and business. Neither has sufficient knowledge to know precisely where this activity ought to be carried out.

Secondly, a selection of the participants in such a center would raise some problems. For example, should a center be established and open bids be left to industry to decide who would go in. It is quite possible that you would have two or three companies in a very close competitive basis entering the centers, and this might then raise questions of antitrust or communication or Government support.

It is even possible that a trade association in industry might decide itself to mount such a center for all of its industry members, giving rise to a sort of external association, an export association which is located overseas. There undoubtedly gives rise to some questions on antitrust which the views of Justice would have to be sought on. In fact, maybe the views of Justice might have to be changed on such an activity if it were found desirable.

In my own view these new sorts of techniques looking to the new developments of the market are necessary. We cannot treat the foreign market as we have in the past decade or 15 years. We have to look to it with new techniques.

Speaking of new techniques, Mr. Chairman, let me wind up by addressing myself to financing. The problem is twofold. There are some countries which are moving out of the more extreme less developed classification toward industrialization, toward sound economies, but cannot be given, from the commercial standpoint or even from the Export-Import Bank, as high a level of creditworthiness as the more advanced countries. They are in a phaseout period and need some special consideration if we are to maintain the proper level of commercial activity with these countries.

The second problem is that the terms of credit are being lengthened by the competition.

Senator LAUSCHE. Mr. Chairman, could you identify some of those countries which you feel are moving——

Dr. BEHRMAN. Formosa, Colombia, Mexico is way up on the list of having moved out of the lower parts of the less developed categories; Egypt may very well come out fairly soon. There are a range of countries which the AID program is putting high emphasis on, accelerating them into the——

Senator LAUSCHE. The fact is that Formosa will get no aid at all?

Dr. BEHRMAN. That is correct, sir.

Senator LAUSCHE. In this year's proposal.

Dr. BEHRMAN. That is correct, sir. If she is not considered a high commercial risk, we may lose contacts with that market.

The terms also are being lengthened, as I indicated, Mr. Chairman, by the competition in ways which are outside of the Berne Union. This puts additional pressure on U.S. exporters who are, because of the agreement to stay within the Berne Union on the part of the Export-Import Bank, and the commercial banks of the United States, U.S. exporters are put at a disadvantage.

In addition, the debtors are put in a position which they should not be put in. Their terms of borrowing are being lengthened for commercial credit, eating into the long-term credit standing which they have for development financing, and their credit standing is being diluted by pressure on medium-term commercial financing which is easy to obtain from other countries, but as they do this their credit

standing is weakened with the international institutions which are to provide them with long-term development lending.

Senator LAUSCHE. What do you define short-term, medium-term, and long-term financing to be?

Dr. BEHRMAN. From the U.S. side it is cut and dried. Short term is 180 days or up to a year. Medium term, a year to 5 years, and long term, above 5 years. But this is getting fuzzy because medium-term commercial financing is being moved to 7 years, 10, 12 by Britain, as much as 15, and on the other hand the European countries consider 15 to 20 years or even 12 years as long-term development financing. The definition between medium-term financing, commercial long-term, and AID is very fuzzy as far as the European countries are concerned.

Senator LAUSCHE. Thank you.

Dr. BEHRMAN. This dilution of their credit standing makes it even more difficult for the United States, particularly a public body such as the Export-Import Bank, to, on the one hand, press commercial lending, which has a shorter payout, and on the other hand urge or press the development lending which is more useful to the debtor.

The solution in my mind is simply that the United States must have an equal bargaining weapon with the European countries. It may very well be that if such a thing as the $500 million source were voted to the Export-Import Bank that it would never have to be used. Its mere existence, threatened appropriately on specific instances, might indicate to the European countries that they no longer can play both ends against the middle, in a sense, of competing with the United States on financing, that we are able and willing to meet them on terms which are competitive but which in many cases are quite frankly detrimental to the debtor.

The end product of such a tactic would be to produce, in my view, a greater agreement among the European and U.S. creditors as to what the position should be.

Senator LAUSCHE. Identify how these terms under which we compel them to buy now are detrimental.

Dr. BEHRMAN. To the debtor?

Senator LAUSCHE. Yes, to the debtor.

Dr. BEHRMAN. Yes, Senator. The ceiling of countries borrowing is set by commercial and international banks, according to what they consider to be the ability of the debtor to pay out of its balance of payments. That is, its ability to service a given volume of debt.

It is much easier, obviously, to service long-term low-interest loans. These loans are generally called development loans which provide for the long-term growth of the country. If commercial lenders pressed on to the same country a volume of medium- or short-term lending, which increases the interest rate and the payout period, so that more and more of the funds available for meeting debt are pulled into the short term, then it has less debt service for the longer term.

This dilutes the already existing Export-Import Bank, International Bank, other loans, longer term loans, and weakens the ability of that country to bear debt.

This is easily done because in many instances the commercial lenders are so ready to provide credit on exceedingly increasingly longer terms, whereas we are trying to hold the line.

Again, Senator Lausche, referring to one of your questions this morning, I think it is fairly clear that legislation is not required for the Export-Import Bank to raise the ceilings on credit given to, let's say, Chile or Ceylon or somewhere else in a competitive fashion.

Senator LAUSCHE. In other words, it is a fact that you don't need legislation to allow the members of the Board of the Export-Import a Bank to liberalize the terms under which it can guarantee?

Dr. BEHRMAN. I think it is correct, Senator, that legally there is no provision required to permit it, but the history of the Export-Import Bank is such, and its record with Congress is such, and its record with the Treasury is such that it has been considered almost a banker's bank in its attitude toward lending. It has not taken the degree of risk which might be necessary to do the sort of thing that would be necessary to do the sort of thing contemplated here. Because of the very close relationships to the Congress and its history with the Congress, I myself feel that it would be virtually necessary for the Congress again to give a sense of its direction to the Export-Import Bank so that the Bank, if it takes some of these loans and finds that the default record is higher, that it can come to the Congress and say, along the lines of what we have been doing for 30 years, our record is still as it was.

In this area, however, where you told us that we should take greater risks, we have found greater risks, and our record is as a banker's bank not quite so good.

If they lumped all of this together, then it would dilute what they consider to be a highly favorable position with Congress and the banking institutions, and just mull through the identification and as their defaults increase they would feel badly about it.

I think a separation of these two activities is significant, and quite possible. It has already been done with the Inter-American Development Bank. The Inter-American Development Bank has three windows from which you can borrow. The International Bank also has three windows from which you can borrow. And it doesn't affect the hardness of one window and the softness of the other, and they are administered quite well. To permit the Export-Import Bank to have an equally softer window, separated in its provisions and procedure, I think is merely following a pattern which we have already established for others.

Senator BREWSTER. Dr. Behrman, let me ask you a very general question about emphasis. Should our policy be to develop multilateral international credit through the Export-Import Bank, or similar organizations, or should we develop unilateral, tough, U.S. policy where the United States protects and extends credit to its own people, our own exporters?

Dr. BEHRMAN. I believe both of these go hand in hand. I don't believe you can achieve the first without having the power to do the second. And I don't think you ought to do the second without recognizing that the long-run objective is the first.

You should do this tactic for the purpose of getting more rationality into the entire world's export financing facilities. Unless the United States is in a position to fight fire with fire, item for item, area for area, it will never be able, in my view, to obtain agreement from the other countries.

Senator BREWSTER. Then you advocate working through our international organizations and supporting them. But when the time comes to backing up our own exporters that we do it in a tough way in international trading?

Dr. BEHRMAN. Equally competitively, but not advance the situation.

Senator BREWSTER. Thank you, sir.

Senator LAUSCHE. Would you put any limitation or condition on this last statement? That is, you say we should adopt the policy where we would be equally competitive. Do you make that absolute, that whatever the liberality of the terms given by the foreign countries, we shall equal that regardless of all prudence?

Dr. BEHRMAN. Senator, let me first limit that to the free world countries, so that we are not talking about any possibility of competing with the British loans to the Soviets.

Senator LAUSCHE. I have that in mind.

Dr. BEHRMAN. I thought you might.

Senator LAUSCHE. I think Russia will create terms, not having to run on a self-sustaining basis, that will throw you into the worst tailspin imaginable if you try to compete with them.

Dr. BEHRMAN. I would certainly limit my comments this morning to credits in the free world, and particularly credits to the less-developed countries. This is where the problem area is in terms of the ceiling imposed on the countries and the lengthening of terms. If I can address my reply to that aspect of the question, I will say that obviously there will be times in which a foreigner may want to extend 14 years in order to maintain a position which they have had, such as maybe the French and the associated countries of Africa, and we would simply throw up our hands and not want to go quite that far.

However, I would not leave many such instances if we are to be able to tell them that they have gone much further than is desirable in the world's market today, and that we are going to have to put a stop to that dilution of the credit standing of countries and the existing loans which have already been made to them. That can only be done in my view by having facilities which are closely enough comparable to them so that it brings that result.

You may not have to match them 100 percent each time to achieve the result. But you may have to be very close to it.

Senator BREWSTER. Senator Hartke?

Senator HARTKE. Dr. Behrman, I am glad to see you back.

In this problem of the competition in the field of credit, any country, even the Communist countries, are not completely free to do as they please, are they? Only maybe in individual cases. But I mean over the long run.

Dr. BEHRMAN. No country has unlimited capital resources.

Senator HARKE. That is right. So the real problem here is making sure that we fully participate in the overall question of credit extension to the ability that we as a nation can, without losing some of this business. If we are going to make a series of real bad judgments, in the long run we have to make up our minds whether we are going to do this as a matter of gifts or whether we are going to do this as a matter of sound banking principles. That comes back to the problem of just exactly how far the Export-Import Bank is going to be allowed to go in spending credit. Isn't that true?

Dr. BEHRMAN. That is correct, sir. Obviously every time a foreign government lends to a third country, that has an effect on its credit standing regardless of what we do. But this is decidedly what I am after if I may press that for a minute.

If we keep a ceiling on Chile, for example, and say Chile should not have more than an exposure of $500 million loans to the United States, any foreign country lending to Chile dilutes our position in Chile. If they do it, without our doing it, the end result is the same. All we do is lose the business.

Senator HARTKE. The question is, really, when you go into any country and make a determination that it is loaned up and another country comes into the market and says they are not loaned up as far as we are concerned, that means the American businessman just loses the business pure and simple.

Dr. BEHRMAN. Unfortunately, sometimes we go and bail out the country, so, in fact, the other country's judgment was right.

Senator HARTKE. I was in receipt of a letter today from the AID people, where we extended another $4 million in credit to them for purchases for material other than military material in the field of aircraft. The net result is the same. If we had given such a credit to them through the bank, as far as the Government is concerned we would have been in no different position as far as the Treasury is concerned. Isn't that true?

Dr. BEHRMAN. That is true, sir, except for the possible bailing out of a country in the future we are in somewhat a worse position.

Senator HARTKE. That is the whole point. We would be so much better off on all of these items if we had them handled on a banking basis, rather than upon this slight-of-hand trick business, of whether it is to be called a political bail out or business bail out.

Dr. BEHRMAN. To do this we are going to have the cooperation of the other countries.

Senator LAUSCHE. I didn't hear that answer.

Dr. BEHRMAN. We will have to have the cooperation of other countries. The question is how do you achieve this.

My own feeling is that we can achieve it only by having a technique which is comparable to theirs.

Senator HARTKE (presiding). Those are all that I have.

Senator LAUSCHE. Have you finished your statement?

Dr. BEHRMAN. Yes, sir.

Senator LAUSCHE. You were with the Department of Commerce, were you?

Dr. BEHRMAN. Yes, sir; for 3½ years.

Senator LAUSCHE. When did we pass the bill intending to be used to stimulate exports?

Dr. BEHRMAN. There was no bill, Senator Lausche, to stimulate exports. It was an administrative decision as to the responsibilities which the Department of Commerce should assume, and we came to Congress for additional appropriations to carry out the program, and the Congress agreed with us.

Senator LAUSCHE. When did you leave the Department?

Dr. BEHRMAN. September 1964.

Senator LAUSCHE. Can you tell the committee what the appropriation has been for this particular service of Government in 1964, fiscal 1964 and fiscal 1965?

Dr. BEHRMAN. I can't give you 1965. I left before the budget request came through there.

The aggregate amount, even for 1964, is difficult to say for this reason: A large number of programs of the Department of Commerce support export expansion, including the mere informational gathering program which has been a longstanding one. The total budget for export programs of all sorts, informational and everything, would run about $20 million—something over $20 million, including the Trade Fairs, Trade Missions, et cetera.

Senator LAUSCHE. Was it your opinion that with that money you would or could not do an adequate job, or utilize the full potentials that would result from adequate efforts?

Dr. BEHRMAN. It was not adequate, Senator, to do what we thought was needed. For example, we estimated there were 10 to 20 centers of commercial activity in the world which would have warranted trade centers, and we were able to mount only five while I was in the Department. They have now added a sixth.

The commercial officers overseas numbered around 140, about 149, I think, compared to a little over that number by Canada itself, for a much smaller volume of trade, and several times that by the British and the Germans. So that we are simply not represented overseas to the extent that others are.

Senator LAUSCHE. I direct your attention to title I which contemplates establishing a Trade Development Corps.

Dr. BEHRMAN. Yes, sir.

Senator LAUSCHE. This corps shall be made up of—does it provide for retired businessmen?

Dr. BEHRMAN. No, sir; it says persons who are able and capable and willing, in essence. It does not limit the source.

Senator LAUSCHE. You suggest that we ought to utilize students in the colleges?

Dr. BEHRMAN. Those who have completed their work; yes, sir.

Senator LAUSCHE. Sir?

Dr. BEHRMAN. Those who have completed their work. Say everything but the thesis, and they need a thesis to complete the requirements, and they could easily complete it out of the work I am suggesting.

Senator LAUSCHE. What is your appraisal of this provision in section 101, subparagraph (d), on page 4:

> The Secretary is authorized to make grants to members of the corps accepting assignments under this section. Each such grant shall be in an amount determined by the Secretary to be sufficient to defray the necessary travel and living expenses of the member and his family and to provide a moderate compensation while engaged in carrying out his assignment, and shall be subject to such terms and conditions as the Secretary may prescribe to assure the successful completion of the assignment and to protect the interests of the United States.

Do you advise adopting that type of a loose program?

Dr. BEHRMAN. No, sir; I would not. That is one reason I have suggested the source of manpower that I did. There are a great many difficulties in taking a family which is midway through its life, with children of high school or college age, and so on, even if the man is willing to interrupt his career, and put them into a temporary situation overseas.

It is much less difficult taking a single graduate student or a young married couple. I certainly wouldn't do it on a grant basis. I would provide that it go right into the civil service rating on a temporary classification, with additional cost-of-living expenses, and so on, such as the State Department provides, but attaching the individual to the Department of Commerce. This would require legislation in my view to do this, however.

Senator LAUSCHE. In this same subparagraph there is the statement:

Payment of any such grant shall be made wherever feasible in foreign currency.

I suppose your approach is that we ought to handle this on a business basis and not make it a per se philanthropic operation.

Dr. BEHRMAN. Yes, sir. You may use foreign currencies as the regular government does. There is not great advantage to that in terms of the appropriation.

Senator LAUSCHE. Going to cooperative industrial export development projects, is that what you discussed as constituting centers of operation?

Dr. BEHRMAN. No, sir. There are three provisions: the Trade Development Corps, the cooperative activities, and the centers. There are three.

The centers would be mostly directed to the less developed countries and would be planned with equipment that would be there, sales plan, service equipment, and so on.

Senator LAUSCHE. You believe, to summarize, that there are greater potentialities in attracting purchasers in foreign countries than we have developed, and the un-use of these greater potentialities has resulted because we have not made the proper effort. Is that correct?

Dr. BEHRMAN. I would agree, sir, yes, sir.

Senator LAUSCHE. And you think we ought to intensify the work in the Department of Commerce?

Dr. BEHRMAN. That is correct, sir. Not only for balance-of-payments purposes but for economic growth and U.S. exposure overseas.

Senator LAUSCHE. One final question.

If you have in the Export-Import Bank two windows, one, let's say for purposes of discussion would be for hard loans and the other for soft loans, would not that disintegrate or deteriorate the normal operations of the Export-Import Bank?

Let me have your view on it.

Dr. BEHRMAN. Let me say for example, Senator Lausche, that it has not done so in the Inter-American Development Bank which has not only a hard loan and soft loan but a grant window. The International Bank has hard loans and soft loans. The Inter-American Bank has a soft-loan window. There has been no criticism of that. In fact it provides a very nice mixing of the project provisions. But for the Export-Import Bank, what we are talking about is export financing. This is slightly different.

The conditions, however, I think would be fairly clear. You would go to the hard-loan window. If you can obtain financing and the order, fine, and there would be no dilution of the terms.

If, however, you go and find one of two things, one, that you can obtain a loan but the competition beats you out, seriously, so that it is an ineffective loan, you may then take the situation to the soft-

loan window for consideration. Or they say no, you cannot have the loan because the ceiling is too low. Then you may take it to the soft-loan window. This would have to be conditions of rejection first.

Senator LAUSCHE. As an official of the Department of Commerce, were you able to learn what the terms of guarantee were that were provided by the foreign countries when that foreign country was competing with an American seller?

Dr. BEHRMAN. Not always, Senator.

Senator LAUSCHE. Why couldn't you learn what the terms were?

Dr. BEHRMAN. Commercial information is secret as much as the individuals can keep it. The competition—U.S. businessmen will tell you freely—will tell you all it can learn and this freely, will be enough to let you know what the situation is. And then, through the Berne Union or contacts with other governments we can check to find out what they are doing. All but a very few countries will tell us what they are doing.

Senator LAUSCHE. I asked the question because I believe Mr. Carlson stated this morning that it is a difficult thing to find out exactly what the time term is that has been provided by the foreign government.

Dr. BEHRMAN. It is a difficult thing, but there are techniques of doing it, and we have had cooperation from other governments I think sufficient to give us the guidelines.

Senator LAUSCHE. For the purpose of the record, we have the World Bank, which has a hard-loan window and a soft loan; is that correct?

Dr. BEHRMAN. Yes, sir.

Senator LAUSCHE. Then you have the Inter-American Bank.

Dr. BEHRMAN. Inter-American Development Bank; yes.

Senator LAUSCHE. That is the one on which we had a bill before the Senate last week. We, last week, created a new window for that Bank, I think.

Dr. BEHRMAN. You probably added resources, unless you added funds for the Special Social Progress Fund.

Senator LAUSCHE. Which is the third one? The development loan?

Dr. BEHRMAN. No; the Development Loan Fund is itself a soft——

Senator LAUSCHE. The International Development——

Dr. BEHRMAN. The International Development Association, the IDA, is the soft window of the International Bank.

Senator LAUSCHE. Any other one?

Dr. BEHRMAN. No, sir; there is no other triad operation that I know of.

Senator LAUSCHE. Are you a consultant with any business institution?

Dr. BEHRMAN. I have been on occasion. I am not at present.

Senator LAUSCHE. Have you come down here today on your own volition?

Dr. BEHRMAN. On my own volition at the request of Senator Magnuson.

Senator LAUSCHE. You had association with Senator Magnuson while you were with the Department?

Dr. BEHRMAN. I was responsible to this committee, as were others who were concerned with Commerce.

Senator LAUSCHE. Thank you very much for your information.

Senator HARTKE. Dr. Behrman, you have said that we needed greater effort in commerce than has been made. I think really, with due deference to what happened, I think when Secretary Hodges came, he had a background of international promotion as Governor of North Carolina. Isn't that true?

Dr. BEHRMAN. That is correct.

Senator HARTKE. What he tried to do was to establish to some extent some of these policies which he had been able to successfully help some of the industry of North Carolina with, on a national scale?

Dr. BEHRMAN. Yes, sir.

Senator HARTKE. You feel that that effort has been successful to the extent that it was financed and to the extent that it was developed, but that still more could be done?

Dr. BEHRMAN. No doubt about this.

Senator HARTKE. To all of which I agree.

However, isn't this true: It does us very little good to have fairs and have exhibits and have trade development and promotional programs if after we have developed these and can have available financing for our people the whole part of the program goes down the drain?

Dr. BEHRMAN. It is an incomplete program; yes, sir.

Senator HARTKE. As far as the Bank is concerned again, and you may have testified on this, when I wasn't here, and I am sorry for that, but we did have an emergency meeting. We have a new Secretary of the Treasury, and we were talking about balance-of-payments problems on that side, too.

Dr. BEHRMAN. I understand that.

Senator HARTKE. Isn't it true that the need for the section which deals with the special fund, title II, is only necessary because the Bank itself has not at the time either exercised the authority that it has or has felt restrained to exercise the authority, or is in fact limited in its authority to provide for this type of commercial transaction?

Dr. BEHRMAN. Yes, Mr. Chairman. I would myself emphasize the second of those reasons, however, though I think it is felt it is constrained.

Senator HARTKE. Without making a determination as to which it is, if the authority is in fact there, this shows that the $100 million profit that they are able to accumulate and point to with pride, is nothing more than falling down and worshipping the golden calf while in the meantime the country suffers the consequences of not having enough credit to keep in real competition with their overseas competitors.

Dr. BEHRMAN. It is an indication that greater risks could be taken, undoubtedly.

Senator HARTKE. What we are dealing with here, then, to all intents and purposes, is with a governmental institution which is attempting to seek self-glory by following private banking policies which in effect are a denial of the actual instructions of the Congress, and if they had followed those instructions in the initial instance possibly this legislation would not even have been needed to have been proposed.

Dr. BEHRMAN. Senator, I think if you will go through the history of the development of the Bank, we could be sympathetic where it stands. Because the instructions given it were back in the 1930's originally and they were changed twice since World War II. It

really needs some new instructions, and I think this is what I am urging, that the Congress take a position to give it new instructions facing the present situation.

Senator HARTKE. Isn't it true that the new instructions, even if they were here, that the criticism which Senator Lausche pointed to, to which I am somewhat sympathetic, and that is to set up the two windows, in and of themselves could create a problem, and we would be better off if we had the assurance that they would exercise the maturity of judgment for which they are charged under the law, that it would be better to provide the additional resources for them and let them use that and not point with pride to the $100 million but to the additional exports we are able to accumulate, and therefore alleviate part of this balance-of-payments problem.

Dr. BEHRMAN. If you can achieve that great a revolution, Senator, I am with you. But I personally think it will make it easier for them if you permit them to have a weak pocket and a strong pocket.

Senator HARTKE. I would say to them that either they should exercise their responsibility or find themselves another place of employment.

Senator LAUSCHE. I don't want to leave this aspect of the questioning obscure. It is your belief that under the existing law they have the power to do what we, by this bill, contemplate telling them to do.

Dr. BEHRMAN. Yes, sir.

Senator LAUSCHE. They have been hesitant to do it because they understand that the initial purpose was to operate this on a business basis as distinguished from the other soft windows that we have established since in making loans and otherwise helping them; is that correct?

Dr. BEHRMAN. I think that is fair, Senator, and also in view, in their understanding, of the general administration position on credit worthiness of a given country; yes.

Senator LAUSCHE. What is your title at the university?

Dr. BEHRMAN. Professor of international business, Senator.

Senator LAUSCHE. What was your original degree? Was it in economics?

Dr. BEHRMAN. Economics, yes, sir; at Princeton.

Senator LAUSCHE. I was going to ask you another question, but we will get on.

Senator HARTKE. For the sake of the record, the law under Public Law 713 provides that:

> The objects and purposes of the Bank shall be to aid in financing, and to facilitate exports and imports and the exchange of commodities between the United States or any of its territories or * * * in any foreign country or the agencies or nationals thereof.

And furthermore, under section 2(b):

> It is the policy of the Congress that the Bank in the exercise of its functions should supplement and encourage and not compete with private capital and that loans so far as possible consistently with carrying out the purposes of subsection (a) shall generally be for specific purposes and in the judgment of the Board of Directors offer reasonable assurance of repayment.

Without getting into a play of words as to whether they should follow business-like purposes, the truth of it is that if they are making

a profit of $100 million a year, they are in fact and in reality in competition with loans which could be made by private bankers, because it is a profitmaking venture.

The thing about it is that the Bank, instead of serving the purposes specified in the act, is in direct contradiction to the purposes in that regard.

Dr. BEHRMAN. Senator, I think you have to take into account additionally an administrative regulation, or policy, which was adopted after that act, as I recall. You read the 1945 act, did you not?

Senator HARTKE. Let me say I am unsympathetic with administrative regulations which completely destroy and pervert the intention of Congress.

Dr. BEHRMAN. This is why I think you may need to express yourself again.

Senator LAUSCHE. That is all that I have.

Senator HARTKE. That is all that I have. Thank you.

Dr. BEHRMAN. Thank you.

Senator HARTKE. Dr. Louis Berger, from East Orange, N.J., representing the International Engineering Committee, Consulting Engineers Council, Washington, D.C. Dr. Berger, you may proceed in any way you like.

It is now 10 to 12. We have three additional witnesses who are scheduled to be heard after you are to be heard.

STATEMENT OF DR. LOUIS BERGER, MEMBER OF THE INTERNATIONAL ENGINEERING COMMITTEE, CONSULTING ENGINEERS COUNCIL, U.S.A.

Dr. BERGER. Mr. Chairman and members of the committee, my name is Dr. Louis Berger. I live at 17 Essex Terrace, West Orange, N.J. My business address is 100 Halsted Street, East Orange, N.J., where I am the principal partner in the consulting engineering firm of Louis Berger & Associates.

I am a professional engineer, registered in 14 States, a member of the American Society of Civil Engineers, and the International Engineering Committee of the Consulting Engineers Council of the United States.

For purposes of this testimony, I speak for the Consulting Engineers Council of the United States, which numbers more than 1,700 member firms in all 50 States. The 1,700 member firms of the CEC are owned and operated by professional engineers in independent practice and represent a major segment of the consulting engineering profession.

They provide many professional services including engineering feasibility studies and analyses, designs and specifications for public works and industrial construction, plus construction coordination and management services.

Consulting engineers and the services they provide have been instrumental in many of the engineering and technological achievements of our time and of our civilization. Not only has the consulting engineer made a major and significant contribution to the economic and industrial development of the United States and toward bringing this Nation toward the highest living standard in the world, but he has

played an increasingly important role in the development of our export expansion program.

The newly emerging countries are desperately in need of the engineering ingenuity and skills which U.S. consulting engineers can provide. The U.S. Department of Commerce has estimated that consulting engineering firms earn about $300 million per year overseas, which is certainly a significant contribution to our international balance of payments.

However, the amount which the engineering profession earns overseas in direct fees is only a small part of their overall contribution to our balance of payments.

The U.S. consulting firms, engaged in overseas activities, are in a key position to design projects which specify materials, equipment, supplies, and services provided by other U.S. firms. This multiplier effect is a significant reason for the importance which the Commerce Department has attached to promoting the export of U.S. engineering services overseas.

In a survey conducted by the Commerce Department, it was found that during the 5-year period from 1,959 to 1963, U.S. engineers worked on 672 projects with a total construction value of $7.6 billion.

The engineering fees for 608 of these projects totaled $394 million. However, the U.S. exports which resulted from only 301 of the 672 projects, totaled over $1 billion of exports.

In a subsequent survey, 39 percent of those responding indicated that engineering services greatly influenced, and 27 percent indicated that engineering services influenced somewhat, the procurement of U.S. material and equipment.

If a U.S. engineer has designed a project which specifies equipment, supplies, and goods of U.S. manufacture, subsequent expansions of these installations will probably be made with compatible equipment.

Consequently, the United States can expect to derive continuing income for years to come from these projects for repair parts, plant extensions, new equipment and so forth. For every dollar in fees earned for consulting engineering services, normally $10 to $20 are generally expended overseas for equipment and construction.

This concept is a measure of the value of establishing U.S. consulting engineers on the initial phase of as many oversea engineering assignments as possible.

Many foreign governments are equally aware of the great future earnings potential resulting from seed capital investments made for engineering services in the developing countries. With this object in mind, many governments are rendering outstanding services to their consulting engineering firms in financing and promotion in order to expand the volume of consulting work being carried out on a worldwide basis.

The geographic areas where the maximum governmental assistance is necessary are in the newly emerging countries which have a great future potential and a great need for engineering service, but which are presently very short of capital and, therefore, very slow in making payments for the engineering services they require.

U.S. engineers have found it necessary to extend credit to many of these countries for periods of 2 or 3 years and, in order to more effectively compete with foreign firms, credit should be made available for periods of up to 5 years.

U.S. firms usually pay higher salaries than their oversea competitors even though their fees are identical. As a result, the profit margins on this oversea engineering work is extremely small.

Since no tax benefits are available to the American consultant on this oversea income, consequently the possibilities of accumulating sufficent capital to permit the consultants to finance credit to the emerging countries from his own resources is virtually an impossibility.

Therefore, if U.S. consulting firms are to become a truly effective arm of the export expansion effort, they need assistance in the area of financing, so that they can compete favorably with the aggressive, government-supported consulting firms of other countries.

The United States is the only major country that does not finance engineering services through their export-import bank machinery. For example, when a foreign airline wishes to purchase now aircraft of U.S. origin, there is little difficulty in most cases in their being able to get a loan from the U.S. Export-Import Bank, with the guarantee from their government through their Minister of Finance.

The U.S. consulting engineer now asks why an identical guarantee by the foreign government, signed by the same Minister of Finance, is not adequate to permit the U.S. Export-Import Bank to finance the sale of engineering services overseas.

Many applications for credit have been submitted by consulting engineers to the Export-Import Bank which has the authority to provide such guarantees of credit for oversea engineering services.

However, it appears that applications by engineering firms have been turned down administratively. The reason stated by the Bank is the concern of the Export-Import Bank of the nonacceptability of the engineer's work by the foreign government, or the engineer's nonperformance.

The likelihood of this happening to reputable, well-established, and experienced professional engineering firms, who have been operating overseas for long periods of time, is so remote that the firms themselves would be prepared to take out insurance to protect the U.S. Government against a loss from either of these causes.

U.S. commercial banks, when properly qualified by the Export-Import Bank, are now permitted to extend loans directly to responsible exporters, based on the financial credit judgment of the bank itself.

The consulting engineer asks nothing more than the opportunity of being judged by the same criteria and being permitted to submit contracts from responsible foreign governments to the U.S. commercial banks on a basis of equality with exporters of goods.

Unless some credit assistance is made available soon, there will probably be a sizable reduction in oversea earnings because foreign competition is getting very much stronger. Furthermore, the reduction of U.S. AID and World Bank loans to the developing countries will further deteriorate the U.S. engineer's position overseas.

For these reasons it is now imperative that more realistic policies on the part of the lending agencies must be instituted to assist consulting engineers in the area of financing engineering services to emerging countries. Most U.S. engineering firms operating overseas are outrunning their capabilities of extending credit from their own working capital.

The institution of a program for financing engineering services will then bring U.S. policies in lines with the export programs of most

of the major countries which include such services as well as goods in their credit-guaranteed programs.

The guarantees on services are usually comprehensive, covering both commercial and political risks and reportedly are subject to the same eligibility criteria and other conditions that apply to medium-term loans on goods.

For example, the Government Agency of the United Kingdom, the Export Credits Guarantee Department (ECGD) offers guaranteed coverage against the nonpayments of earnings from the rendering of oversea services, including fees of engineering and architectural consultants.

In addition to its service guarantee program, the German Government reportedly gives direct assistance to the engineers by means of a credit against their turnover taxes amounting to a 4-percent rebate on the value of the engineering contract for foreign work.

This 4-percent rebate, which according to some engineers closely approximates the margin of profit made on such oversea contracts, allows the German engineer to either lower his fees or increase his net profits substantially.

The Export-Import Bank has steadfastly refused to exercise the authority it has been given to guarantee the fees of professional engineering services in a manner similar to that which other countries provide to their engineers.

Until the U.S. Government is able to provide some alternative method of financing engineering services, or until the Export-Import Bank can resolve the administrative veto of its authority, there is little possibility that consulting engineers will be able to make a significant contribution to correcting the present international balance-of-payment difficulties.

Furthermore, with continued reductions in AID and World Bank funding overseas, it is likely that the oversea earnings of both U.S. consultants and constructors will continue to diminish appreciably unless the U.S. engineers can obtain financing of the export-import type, which will permit them to continue to compete favorably in the world market, with the engineers of the various other countries.

If appropriate legislation were passed, which enabled the engineer to finance his professional services overseas, it is conservatively estimated that 5 years hence the increased earnings would contribute not less than $50 million per annum additional toward our balance of payments, and 10 to 20 times that amount for the equipment and goods which would follow the U.S. engineer's plans and specifications.

The membership of the Consulting Engineers Council of the United States urges favorable consideration of legislation introduced by Senator Magnuson and supported by several other Senators.

It is in the national interest that engineering, an important part of our overseas effort, be given the opportunity to play its full role in our export expansion program. If the U.S. engineers are given the proper financial assistance, our engineering technology will set a pace in the emerging nations unmatched by any other country.

We request your help and your support and pledge our full and sincere cooperation in fulfilling our responsibilities.

Senator HARTKE. Thank you, Dr. Berger. I have no questions.

Dr. BERGER. Thank you.

Senator HARTKE. Mr. Philip S. Lyon, secretary of the J. H. Pritchard & Co., Kansas City, Mo., and chairman, Committee on Public Affairs, National Constructors Association, Continental Building, 1012 14th Street NW., Washington, D.C., accompanied by Mr. Marvin Marcus, the director of Government operations, the Lummus Co., and evidently some other individuals.

It is a pleasure to have you with us. Will you identify the gentlemen with you for the record?

STATEMENT OF PHILIP S. LYON, SECRETARY-TREASURER, J. F. PRITCHARD & CO., KANSAS CITY, MO.; ACCOMPANIED BY GORDON JONES, VICE PRESIDENT, M. W. KELLOGG CO., NEW YORK CITY, AND VICE PRESIDENT, NATIONAL CONSTRUCTORS ASSOCIATION; J. M. LANE, STEARNS-ROGER CORP., DENVER, COLO., AND COCHAIRMAN, INTERNATIONAL COMMITTEE OF THE NATIONAL CONSTRUCTORS ASSOCIATION; MARVIN MARCUS, DIRECTOR OF GOVERNMENT OPERATIONS, THE LUMMUS CO., NEW YORK CITY; AND E. D. HOEKSTRA, EXECUTIVE SECRETARY, NATIONAL CONSTRUCTORS ASSOCIATION, WASHINGTON, D.C.

Mr. LYON. I am Mr. Philip S. Lyon, secretary-treasurer of J. F. Pritchard & Co., Engineer-Constructors of Kansas City, Mo. I am appearing before this committee today on behalf of the National Constructors Association as chairman of its public affairs committee.

Also present on behalf of the National Constructors Association are Mr. Gordon Jones, vice president of the M. W. Kellogg Co. of New York City, and also vice president of the National Constructors Association; Mr. J. M. Lane, an executive of Stearns-Roger Corp. of Denver, Colo., and cochairman of the International Committee of the National Constructors Association; Mr. Marvin Marcus, director of Government operations, the Lummus Co., engineer-constructors headquartered in New York City; and Mr. E. D. Hoekstra, executive secretary of the National Constructors Association, Washington, D.C.

I should like to interject at this point that Mr. J. F. Thornton, president of the Lummus Co., who is on your schedule, has chosen to combine his presentation with ours. Mr. Marcus is here representing Mr. Thornton.

The National Constructors Association consists of 31 major companies who do an annual volume of engineering and construction of approximately $5 billion per year.

A list of member companies is attached to this written statement. The work performed by these companies includes complex multimillion-dollar projects such as oil refineries, chemical plants, steel mills, powerplants, and other engineered facilities in the United States and in practically every country of the world within the limitations imposed by the U.S. Department of Commerce regulations for the export of technical data.

Parenthetically, this excludes most of the Iron Curtain countries.

This volume consists, for the most part, of contracts undertaken for both American and foreign clients, including private businesses and governments.

With reference to Senate bill S. 558, the Export Expansion Act of 1965, the National Constructors Association endorses this bill and urges its early passage.

Title I of S. 558, although being most appropriate, is not as important to NCA member companies as it would be to those firms manufacturing and servicing a product.

Title II of S. 558, "export financing assistance," is of major importance to the U.S. economy, particularly to the ability of NCA member companies to obtain the maximum share of foreign work wherein the engineering services and materials could be furnished from the United States.

All of the member companies face competition from technically qualified engineering construction firms in countries such as France, Germany, Italy, England, Japan and the U.S.S.R. These firms are given special encouragement by their governments in various forms, such as export subsidies, special rediscount rates, nonrecourse financing, guarantees of currency convertibility, and protection against credit and political risks. Certain governments also provide insurance protecting the exporter from internal price increases during the period of the construction if the exporter is required to give a firm price to meet competition.

This protection is given with the realization that the foreign projects obtained by engineer-constructors not only provide a very substantial volume of heavy machinery and equipment orders to local factories, but in addition give added prestige to the country involved. This has the twofold effect of stimulating the financing country's economy and broadening its market opportunities since initial installations invariably lead to repeat orders for replacement of machinery, equipment and parts, as well as for future expansions and new plants.

The majority of the financed projects which NCA member companies now build abroad involve credit arrangements furnished by foreign sources. Foreign financing schemes, which have been in effect for many years, have been successful because of the flexible procedures for obtaining precommitments during project proposal negotiations and the ease with which the financing details are handled both during the financing negotiations and the progress of the project.

Exporter credit insurance and advance financing commitments are provided by an agency of the government involved such as Campagnie Francaise D'Asfurance Pour Le Commere Exterieur (COFACE) in France, the Exports Credit Guarantee Department (ECGD) in England, HERMES in Germany, and others, which within a few days decide whether or not its insurance and/or guarantees can be made available for any given project. Having determined this availability, the engineer-constructor can readily proceed to negotiate with the client for the contract, and to arrange financing with their commercial banks.

As a point of interest to this committee, many foreign clients require the engineer-constructor to submit with his proposal a firm financing arrangement. This arrangement, in most instances, becomes the prime factor in the award of the contract.

NCA member companies in 1964 alone were awarded projects abroad having an installed value of—between $2 and $3 billion—of which approximately 60 percent was expended for engineering serv-

ices and equipment purchases within the countries providing the financing. The magnitude of these figures leads to the conclusion that returning even a portion of this market to the United States would substantially aid our exports and improve our national balance-of-payments position.

While NCA supports Senate bill S. 558 in its general terms and intent, we believe that in the interests of enabling U.S. engineer-constructors to offer U.S. financing, recognition of the following key considerations is necessary and should be covered in the text of the bill or in its implementation:

1. Ability to obtain U.S. Government guaranteed advance financing commitments quickly and at a reasonable cost to the engineer-constructor.

2. Ability to rediscount deferred payment obligations at a predetermined and competitive basis without recourse.

3. The need for providing a portion of any loan or guarantee in local currency.

4. Special U.S. tax credits or other support to enable U.S. engineer-constructors to meet the concessions and support given our foreign competitors.

5. The need to establish direct contact between the engineer-constructor and the U.S. Government financing agency.

To elaborate on these key factors for effective Government support or export, where deferred payments are required by the overseas purchaser, we propose the following:

(*a*) A Government-sponsored credit insurance agency and/or guarantee program for without-recourse financing must exist and must operate in such a way as to give an immediate reply to potential exporters concerning the possibility of obtaining adequate risk coverage, when presented with such basic facts as information on the project, equipment or services being exported, the country of purchase, and the amount and deferred terms of payment requested.

Upon informal presentation of the aforementioned facts, the exporter should be informed whether the transaction is possible or not, considering the credit rating of the country involved and the factors affecting national interest. A favorable reply, subject to final approval from the U.S. Government financing agency, should then lead to a formal request by the engineer-constructor following award of the project. This recommendation describes the procedure which is currently being utilized successfully by foreign country financing agencies.

(*b*) The Export-Import Bank—or other Government financing agency—should be prepared to rediscount at a predetermined and competitive rate, notes which the exporter or financial institution has received from the oversea purchaser as per the payment conditions approved by the U.S. Government financing agency.

A variation of this basic scheme should also be available for large, complex projects. This would involve a U.S. Government agency insuring, guaranteeing, and discounting notes received for the full amount of the deferred payment obligations under a loan agreement between a financial institution and the engineer-constructor or the client. This recommendation also describes the procedures which are

currently being utilized successfully by foreign country financing agencies.

We believe the prime consideration here is export of U.S. services and materials to oversea purchasers which the exporter, his bank, and the credit insurance agency deem to be a credit risk in the national interest.

(*c*) Our U.S. Government lending institutions should make available as part of project loans foreign currencies held by the U.S. Government to cover the local costs of project financing. This action will result in U.S. engineer-constructors obtaining a larger volume of foreign business for U.S. services and materials export. Repayments of local currency project loans could be negotiated with the client in a similar manner to the repayment terms of the dollar loans. Again, this recommendation parallels financing programs now in effect in foreign countries and available to engineer-constructors.

(*d*) Many foreign projects are developmental in nature, particularly in the underdeveloped countries. Large sales expenses are accrued in developing and competing for these foreign projects. A U.S. tax credit, or some form of tax rebate such as now provided in the United Kingdom export credit program, or some other form of assistance should be given to U.S. engineer-constructors to stimulate and increase the effectiveness of efforts of U.S. engineer-constructors to obtain larger volumes of foreign work to be performed in or exported from the United States.

(*e*) Provision should be made whereby the U.S. Government lending institution would deal directly with the U.S. engineer-constructor on behalf of the proposed client. This would definitely expedite the time required to prepare the project proposal, including its financing, and make us more competitive project-timewise with our foreign competition in meeting the proposed date. Engineer-constructors currently negotiate directly with foreign financing agencies for projects abroad.

In conclusion, the National Constructors Association maintains that, in addition to the normal Export-Import Bank development loan business now in effect, and in addition to the foreign aid program, if facilities for credit insurance, guarantees, loans, rediscounts, local currency availability, tax credits or rebates, and a more direct financing agency contact as outlined above, were available, this would result in the United States obtaining a considerable volume of export business for materials and services which is presently being lost.

We trust this information will be of value to you in your studies.

Senator HARTKE. I want to thank you, sir.

I have been informed that it is going to be impossible for us to continue the hearings this afternoon. In deference to the other two witnesses, I won't ask any questions.

Senator BREWSTER. Your next witness is Mr. A. H. Neilly, Jr., vice president, John Wiley & Sons, on behalf of the American Book Publishers Council and American Textbook Publishers Institute, 1820 Jefferson Place NW., Washington, D.C.

We are glad to have you here, and we would appreciate the chance to hear you.

STATEMENT OF A. H. NEILLY, JR., VICE PRESIDENT, JOHN WILEY & SONS, ON BEHALF OF THE AMERICAN BOOK PUBLISHERS COUNCIL AND AMERICAN TEXTBOOK PUBLISHERS INSTITUTE

Mr. NEILLY. I would like to introduce Mrs. Marianne Orlando, of our marketing division.

Senator HARTKE. Thank you.

Mr. NEILLY. My name is Andrew H. Neilly, Jr., and I am vice president of John Wiley & Sons, Inc., scientific, technical, and professional book publishers.

I am appearing here today on behalf of the American Book Publishers Council and the American Textbook Publishers Institute, trade associations in the book publishing field, whose members publish over 90 percent of the American books sold in the domestic and foreign market.

The 106 members of the institute publish elementary, secondary, and college textbooks; educational tests, maps, and reference works, such as encyclopedias.

The 186 members of the council cover all other types of book publishing including publishing departments of religious denominations and university presses as well as commercial firms.

U.S. BOOK EXPORTS AND IMPORTS

Before attempting an analysis of the Export Promotion Act of 1965 I think it might be helpful to the committee to sketch briefly the position of the United States in international trade in books and the nature of some of our book export problems.

From a position of importing more books than we exported and with practically no exports except to Canada and the Philippines, during the decade of the thirties, the United States has developed in the almost 20 years since the end of World War II into the leading book exporting nation.

Our book exports in 1963 were on the order of $135 million and our imports less than $38 million. Export volume is about 7 percent of the total industry sales and has been growing at a compound rate of over 10 percent per year at least since 1952.

All these statistics relate to the export of physical books or unbound sheets for books; they do not include substantial earnings in the sale of rights to use American copyrighted books abroad either in English or in translation.

This rather spectacular growth of American book exports has resulted from a combination of factors. We have on our side the very great advantage of the English language which becomes increasingly the international language of science, technology, business, the professions, and even the language of instruction for higher education.

Our scientific, technical, and professional books are acknowledged to lead the world, reflecting the eminence of the United States in these fields. Our textbooks are designed to be effective teaching tools and are much in demand. Our literary authors are vigorous and appealing to book readers throughout the world.

The marketing of American books overseas is a rather specialized function. There were in 1964 some 536 publishing houses in the

United States which published five or more new or revised book titles.

However, there were probably less than 20 firms which had their own export departments, employed overseas salesmen, and sold directly to booksellers abroad. These were largely firms in the field of scientific and technical publishing, textbook publishing, encyclopedia publishing, paperback book publishing, and university presses.

Most other firms, not having a sufficient volume of business to justify their own export departments, make arrangements with specialized book export firms, of which there are several.

These firms undertake the marketing of books abroad for a group of publishers on a commission basis.

I should point out that in addition to the respectable export balance in our international trade in books we believe that book exports do much to promote other American exports.

Chemical engineers who used American engineering textbooks in securing their professional training in universities in Brazil, Australia, Japan, or many other countries, are familiar with our techniques and are much more likely to recommend purchase of American equipment at a later stage in their careers than if they had used local, British, German, or Russian textbooks.

Other countries recognize the importance of this relationship of books to other exports and in various ways assist their publishers in the promotion of international book sales.

In addition, the role of American books in educational and economic development overseas is of interest to the Agency for International Development and their cultural impact is recognized by the U.S. Information Agency.

PROBLEMS IN AMERICAN BOOK EXPORTS

The three principal problems preventing an even greater growth in American book exports are all financial in one sense or another: the high price of American books relative to incomes in many countries, the lack of dollar exchange, and credit for foreign booksellers who import our books.

The price problem is not easy to meet. An Indian or Japanese university professor may want to use an American textbook in his classes in engineering or economics; but it will be relatively four or five times as expensive in terms of the living standards of his students than for a U.S. student.

American publishers have attempted to meet this problem to some extent by authorizing cheap reprint editions of college textbooks manufactured abroad by the offset process under licenses restricting sale to foreign countries.

Over 500 of these titles are now in print selling at one-quarter to one-third of the American price. They are increasingly being used in universities throughout the world.

My own company and several others are experimenting with the production of reprints in this country for sale to overseas markets in underdeveloped areas. This, if successful, can contribute substantially to our export sales volume.

It would still leave us at a disadvantage in competing with the British low-priced textbook scheme which enables the publisher to sell at

one-third of list price with a guarantee to be paid by the Government to the publisher for copies not sold.

It also enables the British publisher to extend almost unlimited credit to the purchaser.

The exchange problem is a serious and recurring one, especially in the developing countries which most want and need our books in building up their educational institutions and economies.

If dollar exchange were freely available our book exports might well double within a few years. In this area we have had some help from our Government in the form of the informational media guarantee program (IMG).

This is a device for selling American books in certain dollar-short countries for local currencies under bilateral agreements. The book exporter takes the local currencies resulting from these sales and turns them over to our Government in exchange for dollars. The Government then uses them for embassy and other local expenses.

From 1948 to June 30, 1964, over $74 million in American books and other informational materials were sold abroad under this program. In the last few years the revolving fund under which the program has operated has been reduced and the exports under the program have declined.

In the last fiscal year ending June 30, 1964, approximately $3 million of exports were financed under the IMG program as compared with over $10 million in the peak year of 1959.

The U.S. Information Agency is expected shortly to send up a draft of legislation to revise the program and strengthen its operations. Although this bill will go to the Foreign Relations Committee, we hope that your committee will give the bill its endorsement as well.

We have also been hopeful that the United States would soon complete legislative action necessary to ratification of the so-called Florence agreement (Agreement on the Import of Educational, Scientific, and Cultural Materials).

This is a multilateral treaty granting duty-free status to books, magazines, newspapers, maps, music, and other educational and cultural materials.

It also requires that foreign exchange be made available between signatory countries for imports of these materials by educational institutions and libraries.

As the world's leading book exporter and with our own tariffs in this area being very low, this agreement is very much in our interest.

It was British adherence to this agreement that produced an exemption for books and related materials from their emergency 15-percent import levy a few months ago, of which we were able to take advantage, although we had not formally implemented the treaty.

The Senate approved the Florence agreement by an overwhelming vote in February 1960, but the implementing legislation has never been been acted upon.

The State Department and other executive agencies have been working on a draft of an implementing bill for about the last 18 months but it has still not been sent up to the Congress. Here again we would invite the support and assistance of your committee.

CREDIT INSURANCE

It is in the area of credit that the bill before you might be particularly helpful to our export trade in books.

Title II of S. 558 would seem to provide a means of guaranteeing, insuring and generally helping to finance the export of books at reasonable rates. The present export insurance arrangements have not been very helpful to the book industry for a variety of reasons. Among these are the requirement that all countries be covered, that all accounts be included and that the contracts be for a considerable period of time.

The provisions of title II would seem to be sufficiently flexible so as to make it possible to take into account the nature and volume of book exports. Detailed regulations are left to the discretion of the Export-Import Bank.

The success of this title in helping to enlarge book exports would thus depend on the tailoring of the regulations by the Bank to the particular requirement of book exporting.

These regulations should permit insurance and guarantees for individual countries, and for separate transactions within a country.

They should permit guarantee of credit for 90 or 120 days rather than for an entire year, and they should make it easier to take out insurance on relatively small transactions such as exist in shipments of books from a single publisher to a single bookseller.

We also note that the bank would have the power to set terms at less than the prevailing commercial levels with respect to exports "which can reasonably be expected to affect the national interest."

We believe that book exports meet this criterion if any exports do; and would suggest that this fact be noted in the record of this committee on the bill so as to indicate legislative intent as a guide to the Bank when it undertakes operations.

TITLE I—TRADE DEVELOPMENT PROGRAMS

This title is of general interest to the book publishing industry but not nearly as much as the provisions of title II. Although our trade associations are active in promoting foreign trade in books in a general way, they do not play an operating role.

The whole pattern of book exports has been so crystallized in terms of the vigorous activity and competition of individual publishing houses and export agents that a Webb-Pomerene cooperation would seem to be impractical and unnecessary.

There would, however, be occasions on which publishers could make use of the various programs authorized in title I and we would certainly support the retention of this title in the bill.

At least two individual members of the council and the institute—my own company and the Crowell-Collier Publishing Co.—have filed statements with the committee on this bill, going into some detail on their own experiences. Their recommendations are in general accord with this statement made on behalf of the industry as a whole.

I should like also to submit for the record of these hearings a recent address by Curtis G. Benjamin of the McGraw-Hill Book Co. which

describes the competition we face from Russian subsidized textbooks in the English language.

Senator HARTKE. The two statements, yours and that of the Crowell-Collier Publishing Co., will be made a part of the record, and the address will be incorporated into the committee files and made a part of the record by reference.

Mr. NEILLY. Thank you. We appreciate very much the opportunity of presenting our views on S. 558 to this committee and stand ready to supply any additional information which might be helpful to the committee in considering amendments to the bill.

Senator HARTKE. Thank you, Mr. Neilly.

The last witness we have is Mr. H. L. Byrd, the executive vice president of the Food Machinery Corp. We are glad to have you with us. You may proceed in any way you see fit.

STATEMENT OF HUBERT L. BYRD, EXECUTIVE VICE PRESIDENT, FOOD MACHINERY CORP., LOS ALTOS HILLS, CALIF.

Mr. BYRD. Mr. Chairman, Senators, my name is Hubert L. Byrd, and I am executive vice president of FMC Corp. I am heartened at the increased interest in Congress on the crucial problem of our country's "export financing gap," and appreciate greatly your invitation to testify.

To put my comments in proper perspective, I should mention that FMC Corp. is a diversified manufacturer of capital goods (for agriculture, food processing, packaging, paper converting, and various industrial applications), industrial and agricultural chemicals, defense products, and films and fibers—principally rayon and cellophane.

We had a gross income in 1964 of approximately $800 million, we have 86 production locations in the United States and 23 production facilities located outside the United States and throughout the free world. We exported last year about $60 million worth of U.S.-manufactured products.

We do a great deal of work in developing countries, including such things as water resources development, land reclamation, and food technology engineering, and we provide equipment for the installation of complete food processing and packaging installations. I am pleased that I can say our company, in each of the past 5 years, has had a net favorable "company balance of payments."

We feel there is opportunity for improvement in exporting, however, in our company's case the most improvement would come if we could have the U.S. Government's support in the following four areas:

1. Export credit insurance.
2. Leasing overseas of U.S. manufactured capital goods.
3. Tax incentive on exports.
4. More favorable ocean freight rates.

First, with regard to export credit insurance, I believe this is the area where the most improvements can be made in the shortest time in our efforts to improve our balance-of-payments problem.

First let me say, that I think unless some changes are quickly made, the worse the situation may become, because other countries with better export insurance may soon sew up many more markets. Our experience with FCIA and Eximbank, has on the whole been less than

entirely satisfactory, and certainly from an exporter's viewpoint there is room for much improvement.

Particularly in exporting food processing machinery overseas we have found difficulty. Often the dollar value of such capital goods exceeds the dollar ceiling on availability of FCIA medium term credit insurance as set out by Eximbank, and such insurance is simply not granted.

Perhaps our experience can best be illustrated by examples of actual cases. In the last quarter of 1961 an application was made through a large New York bank for a commercial bank guarantee by Eximbank for approximately $325,000 worth of fruit juice processing equipment for a good credit risk customer in Argentina.

Although the application was thoroughly documented and met all the existing criteria, it was turned down on grounds of Eximbank's already existing exposure in Argentina. It was also said that this was a low-priority project. The business was therefore lost to us and the United States.

Throughout 1962 an application was pursued repeatedly for a guarantee on the export of machinery worth about $446,000 for a data processing plant in Iran. Eximbank raised first one objection and then another. They would not accept a guarantee of the customer's bank and wanted an irrevocable dollar guarantee by the Central Government Bank of Iran.

The Central Bank was willing to grant a "declaration of repayment priority" in dollars and explained this was the most they could grant under Iranian law. Eventually the U.S. Embassy wrote the Export-Import Bank confirming this and urging approval.

The Export-Import Bank then raised the objection that Iran was slow in meeting some other Export-Import Bank payments. We took this up with the Iranian Embassy and were told that due to our action Iran paid up all of its then outstanding current obligations to the Export-Import Bank.

Finally once this hurdle was taken care of, the Export-Import Bank wanted an oil royalty set aside as a guarantee before taking any action on our application. After a year or so of this, the customer finally diverted his attention elsewhere and the sale was lost.

In 1963 we sought FCIA insurance on the export sale of fruit juice processing and canning machinery to the General Organization for Executing the 5-Year Industrial Plan of the United Arab Republic. The sale was for close to $2 million, and the portion to be financed represented about one and a half million to be paid over 5 years. A guarantee on the customer's notes was arranged through the Central Bank of Egypt.

The application for insurance was declined by the FCIA on the basis that the Export-Import Bank would not entertain FCIA coverage of any Egyptian sales with a contract price in excess of $250,000. The Export-Import Bank also advised that they were not prepared to consider commercial bank guarantees for direct financing for the same transaction.

Incidentally, at the same time, because we considered that we might be forced, for these financing reasons, to manufacture this equipment in England or Australia where we have manufacturing plants, we sought indications from the United Kingdom "Exports Credits Guar-

antee Department" and the Australian "Export Payments Insurance Corporation" as to whether they would cover this identical transaction.

Both indicated they would. But while we were trying to arrange this financing, part of this order was placed, I understand, with a German manufacturer.

We have experienced other problems but these three examples are fairly representative. A major stumbling block has been the dollar limitation on transactions in certain countries. In addition to the per-country-dollar limitations, another prevalent difficulty has been in the Export-Import Bank's insistence upon central bank or ministry of finance guarantees.

In the worst situations, these are not available, but even if they ultimately prove obtainable, the time delays involved may well lose the business to a competitor in a country whose government's credit insurance program works more smoothly.

Our company is active in the San Francisco Regional Export Expansion Council, which is made up of representatives from several companies, banks, insurance firms, and the field office representative of the Commerce Department.

This group recently prepared a resolution for submission to FCIA suggesting administrative ways in which the granting of FCIA export insurance could be liberalized or broadened, and sped up. The President of FCIA has responded to this resolution by indicating that virtually all the difficulties suggested are not really problems and all the recommendations are therefore only of academic interest. I have enclosed copies of this resolution and the reply of the FCIA President as an attachment to copies of my remarks.

Experience has clearly shown that U.S. manufacturers are not able to offer competitive long-term credit in the foreign market. Our third country competitors are offering 7- to 10-year terms under their government credit insurance programs, and we simply are not able to meet these offerings.

We—Government and industry—must face squarely the fact that we are losing our position in the marketplace in international trade because we are failing to meet competitors on financing terms.

I believe the U.S. manufacturers stand ready to carry their "fair share" of the current risk and only the Government is in the position to properly evaluate and "price" the political risk. In my opinion U.S. manufacturers would, in "project" type loans over 5 years, be willing to retain a percentage of the unpaid balance closely approaching their entire profit on the transaction if the Government will provide credit risk insurance on the manufacturers cost and full coverage only on political risk. I believe the paper covering such obligations could be grouped and sold to commercial banks and financial institutions.

We understand that the Export-Import Bank has taken the position that it has no authority to undertake insurance of risks beyond what has amounted in practice to virtually certain repayment.

Although the object of the Bank is stated in the statute to be to "Aid in financing and to facilitate exports," justification for its conservative approach, we are told, has been based on the further provisos in the law which states that its loans shall "offer reasonable assurance

of repayment" and its "insurance shall be based, insofar as practicable, upon consideration of the risk involved."

The restrictions imposed have, of course, resulted in very few loss payments, and this might be applauded if the Export-Import were a private bank or insurance company. But the Export-Import Bank is a Government bank, and something should be done, by Congress if necessary, if its very purpose for being is defeated because of an overcautious policy in granting assistance to U.S. exports in more marginal risk situations.

We, as exporters, have been concerned with the realization of the claim made by the Export-Import Bank and FCIA that our export insurance program is competitive with that offered by other free world countries.

In our experience, while it is true that if given enough time they may come around to meeting competitive terms, the time taken may be crucial. In competing for sales of capital goods in the world market we must be able to know what financing or credit insurance will definitely be available in order to offer terms and conditions of sale to win the order.

Title II of the proposed Export Expansion Act may go a long way toward relieving at least the frustration of the dollar limitations. The concept of national interest financing I think is a good one, and should, if properly administered, result in greatly increased expansion of exports.

I say "if properly administered," because I have some reservations about adding yet another hurdle between the exporter and the decisionmakers; namely, the "Interdepartmental Advisory Committee on National Interest Financing."

With this group authorized only to advise the Board of the Export-Import Bank on the extension of export credit assistance, I fear that the exporter will have to plead his case through two bodies instead of one.

Perhaps in practice, it will work out, but I would suggest that consideration be given to granting this Interdepartmental Committee the authority itself to pass on the national interest question which decision would then be reported to the Export-Import Board.

In connection with this matter of improving our country's export income, we feel there is another area of opportunity that could benefit with some help from our Government departments. This is in connection with the matter of leasing capital goods equipment overseas and particularly in developing countries.

Our company does a considerable amount of leasing of equipment, especially in the food processing industries of many foreign countries. Based on this experience, we feel we can see where an extension of leasing of capital goods could be of considerable benefit.

Oversea leasing is obviously of benefit to the United States, since placement of U.S. manufactured machinery provides dollar income for the United States. Second, this is of benefit to the developing country since it can import an item of leased equipment for substantially less immediate hard currency outflow, and pay for the productive item of capital equipment as it earns.

Third, this is of real benefit to the company in the developing country that leases the machinery because again it permits that company

to have an immediately productive asset for considerably less immediate cost than if it were purchased outright, and enables the user to pay for the machinery as it earns.

To make this kind of program effective, however, and to encourage companies in the United States to promote the leasing of capital goods overseas—we need some assistance. Specifically, we would like the following:

First, help through our Department of Commerce and State Departments, so that our commercial attachés in these developing countries can work with the host governments to alter their laws or regulations to accommodate leasing.

The legal codes of a number of Latin American countries today, for example, do not recognize the leasing of capital assets, or, if leasing is a recognized concept, import licenses may be denied for leased assets assertedly because foreign exchange control regulations will not permit dollars to be pegged for leased equipment.

Also, many local laws do not allow for escalator clauses in lease contracts to adjust leased income consistent with inflation of the local currencies. Additionally, we would hope that our Government could work with these countries to ease the burden in terms of deposits and duties on the importation of leased machinery and also allow for the re-exportation of leased items in the event of termination of the lease contract.

Second, where AID or Export-Import guarantees are not now available, arrangements should be made for such guarantees, since they are vital to this kind of program to insure the American lessor against expropriation, war risk and nonconvertibility of lease payments on a regular basis.

In accordance with the U.S. Government's agreements with foreign governments participating in the AID investment guarantees programs one of the prerequisites for the issuance of a specific risk investment guarantee contract by AID is the host government's approval of the investment project.

The exporter is responsible for arranging for the host country government to send the Director of the U.S. AID mission the host government's approval of the project.

We have found upon approaching foreign governments for this required approval that they take offense that we are seeking an AID investment guarantee for the leased assets we are placing in their country. In one case, our representative in the area replied that the host government considered the required formalities to be an insult.

It would seem to us that our investment guarantee program should provide for relatively easy granting of investment insurance when American companies place leased assets in overseas countries, and that the granting of such insurance should be based upon U.S. Government's estimates of the risk involved and not upon the host government's formal approval.

The final two points I have I will discuss only very briefly, as I am not sure whether they are directly in point to the subject you have invited me to speak on.

The first is the possibility of increasing U.S. exports through tax law incentives. I recognize that there are certain provisions written into the GATT Treaty, which restricts the form of such incentives.

Nevertheless, we have a fairly large operation in Australia, and in that country there are two provisions in the tax laws which are designed to, and do, encourage export sales.

The first incentive is a rebate on the payroll tax paid by an exporter when he increases his exports over a certain base period year. As little as an 8-percent increase in exports can reduce the exporter's payroll tax to zero. The second incentive is a double deduction on the exporter's income tax for market development expenditures made overseas.

As a businessman, I am somewhat at a loss to understand how rigid enforcement of antidumping statutes, and the allowance, under GATT, of indirect tax incentives for exports, are reconciled.

Nevertheless, I understand that other countries, such as the United Kingdom, are presently developing new indirect tax incentives of various kinds for their exporters, and would only urge that our Government not overlook the possibilities in this area to keep U.S. exporters competitive or even, hopefully, to place them at a competitive advantage.

The final point I would but mention is the presently existing distinct disadvantage we American exporters find ourselves in in paying freight rates.

I recognize Senator Douglas and others have done a fine job in exposing this problem. Representatives of our company have testified on this problem before other congressional committees, but I wish to emphasize before this Commerce Committee, which I understand has jurisdiction for legislating in the maritime field, that the increase in exports we all desire can only be of sufficient magnitude to affect the balance-of-payments problem, if our Government deals with all the factors involved.

The freight rate discrimination is a very real and a very large one, and our company knows painfully well that American business is losing overseas markets to foreign competitors because of it.

In summary, the commerce of the United States will in our view be increased significantly if our Government can: (1) Increase the export guarantee and insurance coverage considerably more than exists at present; (2) facilitate and push the newly developing and promising method of leasing U.S. capital goods overseas; (3) develop new and attractive tax incentives for U.S. manufacturers to export overseas; and (4) bring back into line the higher rates American exporters are forced to pay to get their goods to overseas customers.

Thank you once again for permitting me to testify.

(Attachment to statement follows:)

JANUARY 27, 1965.

Mr. PHILIP M. CREIGHTON,
Executive Secretary, San Francisco Regional Export Expansion Council, care of U.S. Department of Commerce, San Francisco, Calif.

DEAR PHIL: I have your letter of January 20, with which you transmitted a copy of the San Francisco REEC's resolution of recommendations for the improvement of FCIA's practices. I am sending a copy of this letter to Mr. Muriale, whom I know, and who I notice is a chairman of the committee, if not the REEC.

Taking the items of recommendations one by one, our answers are as follows:

1. There has been a marked speedup in the issuance of policies, special buyer credit limit endorsements, etc. In fact, for all practical purposes, we are on a current basis.

2. We do issue advance commitments on medium-term policies which commitments are followed up by a policy whenever the exporter requests it. The com-

mitment usually runs for a period of time equal to what the exporter advises us it will take him to prepare the product for shipment. In any event, the exporter can get the policy anytime he wants within the commitment period. Or, if the product is ready for shipment, he can obtain the policy immediately. We do have a printed form for advance commitments and this is always furnished to the exporter following the approval of the application. With reference to special buyer credit limits, it is not practical to give commitments, but we do follow the procedure of dating the line of credit back to the date on which the application was received, with a maximum of 30 days except in special cases.

3. FCIA does meet the competition of other foreign credit insurers, but we must necessarily get a confirmation that broader credit terms than those which we think are reasonable are being backed by another foreign credit insurer. Unless we did this, we would break down the rules that apply to credit terms customary in international trade which would not help anyone since it would set off a credit race. Moreover, exporters tell us now and then that a manufacturer in another country is allowing broader credit terms than what we consider appropriate, and in investigating such cases, we have found that while it is true, they do not have the backing of their own credit insurer.

We here at FCIA feel that we do know what the credit terms backed by foreign credit insurers are since credit information is exchanged between us through an association which we all belong to known as the Berne Union. We are also brought in personal contact with representatives of these insurers at the meetings which are held twice a year.

I think we should recognize that there appears to be a tendency on the part of some exporters to grant terms which we consider unreasonable for the purpose of taking business away from their own domestic competitors. Therefore, I feel that we should try to maintain a credit control which is in the interest of all.

4. FCIA does have flexibility in its requirements governing the length of credit terms. It is impractical and unreasonable, however, for an exporter to expect 5-year terms on a $10,000 sale. We do take into account the nature of the goods, the buyer's country, the buyer's condition, and other pertinent factors.

5. We think the installment payments due monthly, quarterly, or semiannually are reasonable. In a few cases, we have approved annual payments. Furthermore, at no time have we ever required that the installment payments start running until after the product has been delivered. Of course, for his own protection and ours, the exporter is required to get a downpayment immediately which, for practical purposes, could mean either before the product is shipped or immediately after it has been delivered to and accepted by the buyer. Thereafter, as indicated, the installment payments start running.

6. In the short-term program, we have very few limitations as to the amount of coverage applicable to buyers in foreign countries. In medium term which goes up to 5 years, there are no limitations as to the amount for B countries. For some C countries, the only limitation is in connection with the downpayment which must be not less than 20 percent. In other C countries, there are limitations concerning the amount of a sale which an exporter may make to one buyer, although the exporter may sell the same maximum amount to several different buyers. In D countries, there are very definite restrictions which are set forth in the country limitation schedules which you have, as I sent copies of them to all field offices of the U.S. Department of Commerce. The banks, of course, have such schedules if they use the commercial bank program.

I do not think we should find fault with these limitations as the economic status of many of these C and D countries is highly precarious.

7. In the short-term program, the inclusion of foreign component parts is covered up to a maximum of 50 percent. In medium term, it was true that the product had to be of 100 percent U.S. manufacture, but as of now this has been relaxed, and we will consider insuring that part of the product which is of U.S. origin. We will even give consideration to insuring the foreign part, depending on the circumstances of its importation and various other factors that go along with it. We must be mindful, however, that the reason this rule exists is in order to protect U.S. manufacturers who ship products which are entirely of U.S. origin. Such exporters find it difficult, if not impossible, to compete with manufacturers who import certain parts; viz., an engine, and because it may cost less to bring it in and then assemble it into the finished product, they are able to sell it at a lower price than the exporter who uses only U.S. parts and labor.

To the best of my knowledge, the coverage offered by other foreign credit insurers is limited to the product originating in their own countries, although there

is a tendency, if not a willingness, on the part of the insurers to get together and insure that unit of the product which originated in their own countries. Such a program is still developing.

Since writing this letter, I have decided to make a copy of it available to all members of the FCIA Committee of the San Francisco REEC. Enough copies for same are enclosed, with the exception of Mr. Wilson to whom we will send a copy separately.

FCIA continues to make progress, and our operations, as stated are current. We expect shortly to announce a bank guarantee whereby we will insure the bank unconditionally, provided they have made a loan to an exporter on a non-recourse basis. Of course, such an assignment will only be issued to those exporters who merit it as we would ask recovery from him in the event of a claim if the loss resulted from a conspiracy on his part with the buyer, or his failure to comply with the terms and conditions of the policy, which, as you know, is true of any insurance contract.

Cordially yours,

HENRY G. SHEEHY, *President.*

SAN FRANCISCO REGIONAL EXPORT EXPANSION COUNCIL—RESOLUTION FOR IMPROVEMENT OF FCIA PRACTICE

The San Francisco Regional Export Expansion Council, in the interest of increasing U.S. exports, and having had the benefit of a similar resolution prepared by its sister organization, the Colorado Regional Export Council, presents to the National Export Expansion Council its considered recommendations for improvements in U.S. export credit insurance:

(1) FCIA should continue to work toward a reduction in the time it takes to rule on applications for coverage.

Decisionmaking authority is presently shared in most cases between FCIA in New York and the Export-Import Bank in Washington. The council recognizes that improvements are being made in the communication channels between the two and urges continued effort in this regard to reduce unnecessary and time-consuming consultations and to eliminate any buckpassing.

(2) The procedures for FCIA issuing firm advance conditional commitments, irrevocable for reasonable periods, should be improved so as to enable U.S. exporters to receive more prompt action.

Experience of exporters indicates that procedures and designation of responsibility in granting advance commitments are in need of clarification, and, when clarified, in need of full communication to exporters. FCIA should also consider the use of a printed form of advance commitment which would specify clearly the conditions remaining to be fulfilled before the coverage can be granted.

(3) FCIA should reform its procedures for meeting competitive credit insurance terms offered by other countries so that U.S. exporters have a prompt indication of the extent to which such terms will be met.

The present procedures place on the U.S. exporter the burden of finding out what terms may be offered its foreign competitors or foreign subsidiaries on the transaction by their government export insurers. This is often an impossible burden, but is always a time-consuming one. The FCIA should develop full and current knowledge of present and trending terms offered by its competitive foreign insurers so that it can apprise the U.S. exporter of such terms and give a prompt ruling on whether it can or cannot meet more favorable insurance terms when they exist, thus making it possible for the U.S. exporter to compete in a more timely and vigorous manner.

(4) FCIA should introduce greater flexibility in its requirements for the length of credit terms allowed.

While dollar size of order is an important factor to consider in length of credit terms to be granted coverage, experience indicates that the present "rule of thumb" guide in use may be more rigidly adhered to than would seem to be warranted. Greater flexibility should be introduced through fuller consideration of the nature of the goods to be sold, the buyer's country, the buyer's condition, credit experience and other factors which may dictate a liberalization of the guide.

(5) FCIA should introduce greater flexibility in its requirements for the scheduling of installment payments during the term of the credit.

The present requirements call for payments in approximate equal installments, interest concurrent, no less frequent than semiannually. In many cases, including those involving sales of capital goods, the buyer will be in a difficult position

to start payments until some time after 6 months from contract or delivery. In such situations the requirements should allow a delayed commencement of payments, at least where the required limitation of time for full payment can still be met.

(6) The ceiling on availability of medium term credit insurance coverage for capital equipment sales to B–C–D countries should be substantially increased.

The present ceiling of $250,000 on any one transaction in any one country is, in many cases, unrealistically low, resulting in the loss of U.S. export business to countries where export insurance is available in excess of the ceiling.

(7) FCIA should be enabled to grant coverage for transactions which include foreign components.

The present practice of limiting coverage only to goods produced and shipped from this country has resulted in the loss of U.S. export business where, because of business necessity, part of the goods making up the transaction can better be supplied from foreign sources. While it is understood that a policy change now under consideration would permit assistance for exports having foreign components, with coverage limited to the value of the U.S. content, consideration should be given to the authorization of full coverage on such a transaction, with a reasonable percentage limitation on the foreign content perhaps being a necessary requirement. This coverage is presently offered by certain foreign export insurance programs, and the U.S. export program suffers by FCIA not meeting it.

Members of FCIA Committee of San Francisco REEC.

Dr. Frederick A. Breier, chairman of committee.
Benjamin Greenough.
W. Robert McLellan.
Bruce Spoon.
John L. Stewart.
Arthur S. Wilson.

Submitted by:

WILLIAM A. MURIALE,
LESTER GOODMAN,
Chairmen.

PHILLIP M. CREIGHTON,
Executive Secretary, REEC.

JANUARY 12, 1965.

Senator HARTKE. I thank you, sir, for your courtesy.

This completes the list of witnesses. The record will be kept open until March 30, at 5 p.m., for additional testimony or statements that may be submitted.

(Whereupon, at 12:39 p.m., the committee was adjourned.)

To: Allis-Chalmers Manufacturing Co., Defense Products Division,
Mr. William P. Bell, general manager,
Washington office,
1901 Pennsylvania Avenue, NW.

From: Mr. W. R. White, Allis-Chalmers International, Milwaukee, Wis.

Reference your teletype March 10, please transmit the following to Mike Pertschuk, staff counsel, Magnuson committee, phone CA 4–3121, extension 5115, to be submitted as written testimony.

While Eximbank and Foreign Credit Insurance Association are making significant contributions to our export sales efforts there are certain areas in their financing programs which are either not covered or can be improved upon. It is in this spirit that we submit the following examples and suggestions for improvement:

1. Cementos Portland de Baja Mexico sale of $52,400 cement kiln machinery application submitted January 1964, under the bank guarantee program via Morgan Guaranty requesting 5-year terms. Advised February 6, by Morgan Guaranty that Eximbank feels transaction does not justify 5-year terms and requesting justify length of terms such justification to be proof of foreign competition or proof of sale of similar equipment in Mexico on similar terms. On February 20, a chance conversation revealed that O. Phillips Co., of New York, the parent of the Mexican buyer, had obtained FCIA 5-year coverage some time ago for other material being purchased for same project. Advised Morgan Guaranty

of this report. Was advised on March 11, 1964, that Eximbank had approved our application. In view of the fact that Eximbank covers political risks on FCIA transactions, we wonder why this apparent lack of coordination and discrepancy in policy exists. A lapse of time for approval of our application was nearly 60 days and did not result in the best of customer relations.

2. In connection with the proposed sale of $1,100,000 worth of agriculture machinery to the Ministry of Agriculture, Peru, we were advised by Morgan Guaranty on February 23, that our application had been rejected, although the commercial bank had recommended acceptance. No reason for the rejection was given and the reason cannot be determined.

In view of recent articles in Time magazine regarding the Republic of Peru as well as articles recently appearing in the foreign Commerce Weekly of the U.S. Department of Commerce in which Peru is described as one of the brighter spots in Latin America, we fail to understand why we are prohibited from doing business in this market. We are quoting the two examples above as an indication of the type of policies which tend to restrict our foreign sales.

We estimate that we lost approximately $18 million worth of business in 1964 due to unavailability of export credit assistance and would assume that at least this much will be lost in 1965, unless corrective measures are taken. We suggest the following action:

1. Greater reliance on character and technical competence of buyer U.S. commercial bank and exporter and less reliance on feasibility studies and financial projections which are often inaccurate estimates.
2. Less reliance on foreign bank guarantees.
3. Provisions for financing in excess of 5 years without requirement of project loan procedure. Suggest exporter be given option of placing first 5 years under bank guarantee program and carrying later maturities himself.
4. Provision such as that proposed in your bill for "national interest" loans financing sales to countries such as Brazil, Chile, Argentina, that are important markets that are in our national interest to maintain as U.S. markets and where Eximbank is not currently lending.
5. Some provision for U.S. exporters to meet competition of other developed nations in countries no longer receiving aid, but in which Eximbank financing is either not available or is restricted to the extent that it is for practical purposes unavailable.
6. Increase discretionary limits under bank guarantee program.
7. Terms to less developed countries more in accordance with ability to pay rather than a strict formula.
8. Allow revolving credit lines to be used to increase business and penetrate markets rather than restrict them to median of past 5 years' business.
9. Better definition of Eximbank feasibility study requirements and consideration of provision of more Eximbank staff to assist foreign buyers and exporters in such studies. Often foreign buyers are not prepared nor qualified to meet Eximbank study requirements.
10. Place as many project credits as possible under bank guarantee program.
11. Restudy classification of countries and upgrade whereever possible. For example, why is Saudi Arabia a "C" country?
12. Refer all proposed rejections by Eximbank of FCIA of significant amounts to special committee for review and recommendation.

We hope the suggestions based on our experience will be helpful to the committee. Willing to submit oral testimony if requested with understanding that our suggestions and experience are based on day-to-day working knowledge, but since we have made no effort to document experiences as they occur, it would be almost impossible to submit details. We are, however, most anxious to contribute in any way possible in this study which is of utmost importance in our national export expansion efforts.

THE CROWELL-COLLIER PUBLISHING CO.,
New York, N.Y., March 15, 1965.

THE MAGNUSON BILL ON EXPORT EXPANSION

May we first introduce the writer and the corporation which he represents. My position is that of vice president of the Crowell-Collier Publishing Co., and the dircetor of the general publishing group, which is responsible for the publishing imprints of the Macmillan Co., the Free Press, and Collier books. All of these imprints have substantial sales overseas.

Responsibility for marketing these imprints outside the United States lies with Collier-Macmillan International under the direction of Mr. Leo Mabel, whose 12-year business career has been entirely devoted to the development of overseas markets for books and related materials. Incidentally, while my own experience in publishing had been over an 18-year period in marketing both in the United States and foreign lands, certainly half of it has been in overseas sales. It should also be added that both Mr. Mabel and myself have served continuously over the past 15 years on the foreign trade committee of the book publishing industry. Collier-Macmillan International has 6 offices overseas and employs over 100 persons, of whom as least 95 percent are foreign nationals. Because of the diversified nature of our publishing lists, this international operation visits annually with personal representation just about every country. As a consequence, this specialization in overseas sales has resulted in a total sales volume which makes it one of the largest among the book publishers.

TITLE I—TRADE DEVELOPMENT PRORGAMS

The plan to provide expert investigative services through the establishment of a corps of professionals to undertake the market studies and to arrange for exhibitions, inclusive of a provision for initiating sales centers abroad, should certainly appeal to a publisher who may be considering undertaking a total publishing investment, particularly in an underdevolped country, but who does not have the sources of information and personnel available of its own to make such a study. Especially to be commended is the use whereever possible of the foreign currencies to defray the expenses of such a program.

TITLE II—EXPORT FINANCING ASSISTANCE

The proposed amendments to the Export-Import Banking Act of 1945 constitute for the book publishing industry the most exciting and promising provisions of S. 558. The great majority of publishers presently market their U.S.-produced publications directly to the foreign markets. This business, which was approximately $150 million in 1964, will continue to expand, we predict, at about a 15-percent increment over the next few years. For the most part it will not require investment in local publishing at least directly or wholly by a U.S. publisher.

Currently and increasingly this expansion of export sales of American books is, though, being retarded by the lack of ability to transact business because of local country conditions of trade such as lack of credit information, insufficient guarantee of payment, inability to make loans, and insufficient knowledge on the part of U.S. publishers of the general business conditions and practices, especially in the newly developing countries—and I refer particularly to Africa.

It appears that title II would provide means for overcoming these obstacles to a much freer trade, making available funds by which to guarantee, insure, and generally help to finance at reasonable rates. Thus the appeal is much more immediately applicable to the export of American books than presently existing arrangements for support of foreign trade.

What is most encouraging is that it appears to be sufficiently flexible in its provisions to take into account the nature and volume of book exports. Operating regulations are left quite properly to the discretion of the Bank. The success of the measure in promoting book exports will therefore depend upon the willingness and the ability of the Bank to adopt regulations which suit special needs of publishers. It will be effective, for example, if regulations permit insurance and guarantees for separate transactions within a country in addition to transactions with the country as a whole.

It will be effective if publishers are supported on credit terms of 90 or 120 days and are not required to extend credit for a whole year. The resources of most book publishers do not permit any substantial volume of long-term credit.

It must be realized that transactions between a U.S. publisher and an overseas account are ordinarily of modest value. It is earnestly recommended that this section of the bill in its final version give particular attention to these aspects of the manner in which export trade in books is conducted, for previous and existing credit insurance plans have required such large transactions and high fees as to make such protection impracticable for a publisher to obtain.

In conclusion, we endorse the Magnuson bill on export expansion most enthusiastically as a practical measure by which to help American business to expand foreign sales which are affected with the national interest.

WARREN SULLIVAN.

AKRON, OHIO, *March 16, 1965.*

Senator WARREN G. MAGNUSON,
Washington, D.C.:

Reference Export Expansion Act of 1965 and your wire of March 10, Goodyear International Corp. agrees with your comments to the Senate: "Increased exports are vital to the redressing of our international balance of payments. They are vital to the maintenance of U.S. political leadership in the free world, and they are vital to domestic employment, economic growth, and prosperity." For nearly 50 years our company has sold in export and continues to develop export markets. Since 1922 we have been fortunate in selling and developing export tire and tube markets under the Webb-Pomerene Act, through membership in the Rubber Export Association (REA).

We recognize the need of continued interest by our Government and its export financing facilities to assist in further expanding export sales and markets. We appreciate your invitation to participate in the current hearings, however, we are not prepared to offer testimony and accordingly respectfully decline.

We congratulate you, Representative Adams and your cosponsors, for introducing the Magnuson-Adams Export Expansion Act of 1965.

GOODYEAR INTERNATIONAL CORP.,
I. C. ALSPACH.

AMERICAN LAUNDRY MACHINERY INDUSTRIES,
Cincinnati, Ohio, March 16, 1965.

SENATE COMMERCE COMMITTEE,
New Senate Building,
Washington, D.C.
(Attention: Mr. Michael Pertschuk, Staff Counsel).

DEAR SIRS: This follows our phone conversation of this morning with Mr. Pertschuk advising you of our desire to present written testimony by means of this letter to the export financing gap on which hearings are to be held March 17, 18, and 19.

We regret that pressing appointments make it impossible for us to appear in person.

In the first place we wish to state that our company is the world's largest manufacturer of commercial laundry and drycleaning equipment, with annual sales of approximately $60 million, and that we have engaged in the export business through a worldwide dealer organization for more than 50 years.

We also point out that for the past 5 years our company, which is now a wholly owned division of the McGraw-Edison Co., of Elgin, Ill., has operated its own financing company, known as the Equipment Acceptance Corp., with headquarters at the above address.

Our company operates a subsidiary with factory, headquartered in Toronto, Canada, and another similar organization with headquarters in Wembley, England.

We owned a factory in Germany which was expropriated during World War II.

Our export business at present amounts to approximately 12 percent of sales. It is the stated objective of our company to develop an international business which will be not less than 25 percent of our total sales.

During the past 2 years in our endeavor to increase our export business we have held conferences in Washington with Mr. Thomas G. Wyman, Director of the International Bureau of the Department of Commerce; the Honorable Griffith Johnson, Under Secretary of State, Department of State; and Mr. R. H. Rowntree, Executive Vice President of the Export-Import Bank.

These gentlemen have been most considerate in discussing with us the obstacles in our international business which include inadequate financing and barriers of both tariff and nontariff character.

There are approximately 60 U.S. manufacturers in our field and 150 competitors abroad. The concentration of competitive manufacturers is in England and continental Europe, particularly in West Germany.

We estimate that the total annual sales of all manufacturers of commercial laundry and drycleannig machinery is between $300 and $325 million, of which approximately $140 million is produced in the United States.

In the normal course of business, when satisfactory credit references are furnished, our company provides financing on overseas orders up to 2 years. In the domestic field a substantial proportion of our timepayment business is handled on 5 year terms.

We are finding an increasing need for providing financing on overseas orders for periods of 3 to 5 years, particularly in the case of large orders for complete installations, which may be as large as $500,000.

To cite examples of such contracts and of the difficulty of obtaining commercial and political guarantees from existing sources, we present the following.

In 1964 we were approached by a long time customer in Belo-Horizonte, Brazil, who was prepared to place an order for laundry and drycleaning equipment for $240,000, provided we could finance this purchase over a 5-year period. While the credit references were excellent, including our own longtime relationship, our company was unable to obtain commercial and political guarantees from FCIA and the Export-Import Bank. As of this date the order is still pending.

Another good customer of our company in Mexico also ordered from us last year equipment valued at approximately $60,000, and again he required 5-year terms of payment for this purchase. Our efforts to obtain help from FCIA were unsuccessful, and we have taken it upon ourselves to finance this purchase on a 5-year basis through our financing company at our own risk in order not to lose the sale to German competition. We know it for a fact that our Mexican customer, in addition to our order, has purchased other laundry equipment for his new plant from Germany. This equipment had a purchase price of $55,000 and the German manufacturer financed this sale for a 5-year period.

Three years ago our company lost a substantial order for a central hospital laundry in Lima, Peru, to German competition due to our inability to offer 5-year terms of payment. We have been told specifically that the terms of this contract were guaranteed by the West German Government, and we, of course, could not obtain similar guarantees through our then existing channels.

Recommendations: We believe that the following proposals are equally important to all U.S. machinery manufacturers and do not simply represent a particular benefit for our company.

We urge that the present experiment of the Export-Import Bank authorizing correspondent banks abroad to make immediate credit checks on pending orders requiring medium-term credit be extended to the principal centers of Europe, Latin America, and Japan. This will provide the necessary support to obtain equipment orders against overseas competition.

We recommend that FCIA be authorized, where credit justifies, to extend commercial and political guarantees for periods up to 5 years to meet the existing overseas competition.

In situations where FCIA considers it impossible to guarantee certain 5-year orders in toto our company will show its good faith by sharing a reasonable portion of such risks.

We earnestly solicit the assistance of your honorable committee in providing the necessary legislation to close the present financing gap which we have outlined.

Sincerely yours,

G. L. STRIKE, *President.*

CLARK EQUIPMENT A. G.,
Buchanan, Mich., January 6, 1965.

Hon. WARREN MAGNUSON,
Chairman, Senate Commerce Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: In the past few days you announced that you plan to sponsor a bill this year setting up a new Export-Import Bank fund to help U.S. exporters match the easy credit terms offered less developed countries by West European manufacturers.

As manager of Clark Equipment Co.'s export activities, I can most heartily endorse this proposed bill. We have found on numerous occasions in the last few years that the export financing and credit insurance available to us by the Eximbank and the FCIA falls considerably short of the programs offered by Great Britain, Belgium, and other countries. We have found, for example, that a British company can get credit insurance in Argentina on equipment identical to our own when similar coverage is not available to Clark through the U.S. agencies.

In addition to advising you of our support in your proposed bill, there is one particular point that I would like to make. The export manager of a British company recently told me that the ECGD is under considerable pressure in England to relax their restrictive policies on credit insurance and to assume more risks. British manufacturers point to the low ratio of bad debts to total credit

offered by the ECGD as an indication that their policies are too conservative. I, therefore, suggest that our own agencies could relax their regulations considerably and still be operating a program on a sound commercial basis. Even if this were not the case, however, it would be wise for our Government to subsidize this program for sales to poor-risk countries to further our exports abroad. The cost of such subsidization would be small in comparison to our aid programs to the same countries.

Very truly yours,

R. F. HENDERSON,
Executive Assistant.

THE EIMCO CORP.,
Salt Lake City, Utah, March 11, 1965.

Hon. SENATOR WARREN MAGNUSON,
U.S. Senate, Washington, D.C.

SIR: We are gratified to see that under your auspices the Senate Commerce Committee is beginning hearings to provide a full and public airing of the present policies for financing exports to less developed countries.

The Eimco Corp. depends on the export markets for over 50 percent of its total sales, shipping many millions of dollars of equipment overseas each year from our Salt Lake City plant. Our products are used in roadbuilding, mining, and the production of chemicals, petrochemicals, paper, food, and most other products which contribute to the ecnomic growth within less developed countries.

We have established several manufacturing subsidiaries overseas to supply markets that otherwise have been impossible to maintain. However we have struggled to hold as much business for U.S. manufacture as possible, not only in our self-interest, but to provide jobs for our workers here and because we know it benefits our country's balance-of-payments position. The success of this effort when competing with lower cost labor is primarily due to superior quality and design as well as maintenance of competent service organizations overseas.

However, today credit financing is becoming as important, and in some cases the most important element in competing for foreign orders. The trend is definitely toward medium- to long-term financing of all capital projects overseas. Eimco is carrying several millions of dollars in term contracts ourselves, because we could not obtain Eximbank or FCIA approval, and wanted to keep the business for U.S. manufacture. We now have reached our saturation level.

Present Government export guarantees do not provide a competitive financial tool. Unless we can approach major projects with assurance of protection against political and comprehensive risks, we will lose a substantial portion of our volume to foreign-based manufacturing.

As an example, we are financing equipment provided for an aluminum bauxite plant in Greece, in which Reynolds Metals is a partner. Terms established for French manufacturers by COFACE were in excess of 10 years. All bidders were forced to quote accordingly. U.S. export credit agencies refused to consider insuring the transaction or to investigate the project, although as comembers of the Berne Union the information was readily available.

Again, in Yugoslovia, Eimco, successfully bid on major equipment in an important zinc project. Despite earlier favorable assurances, FCIA denied insurance on terms of 5 years with an 18-month initial interval—yet foreign competitiors were backed by government insurance on longer terms with lower downpayments. Equipment for a similar project is now under negotiation, and the term arrangements will be the same. Under present circumstances it will be lost to U.S. manufacture, as will every successive order for these buyers as they will all involve term financing. This is particularly regrettable for us as the Yugoslovs have a perfect payment record on past term transactions that we have had to carry ourselves.

The above examples have counterparts in every overseas market. Latin American and Mexican sugar mill sales are financed by annual installments. Inflexible Export-Import Bank requirements insist on semiannual installments. Our overseas competitors receive guarantees on annual payments when crop proceeds so require. A Portuguese papermill on which we quoted the maximum 3-year insured payment program went to Sweden's EKN on 8 years financing. Germany and Japan have been active in many areas, and where terms are required we are not competitive.

Once lost to U.S. manufacture, overseas markets are difficult to recapture. The loss of export sales directly affects our economy and the balance of payments. A strong export effort is an extremely important factor in world

relationships. We cannot afford to lose our leadership in world commerce through a halfhearted economic policy.

Direct loans and grants to overseas governments are less important than the creation of a flexible system of guarantees under which the U.S. exporter can approach overseas term sales on a completely competitive basis. Sound criteria must be used to evaluate the business risk and the government involved. However, our system of governmental guarantees must be equivalent to those of foreign guarantors or the United States will rapidly lose its international leadership.

We feel it is important to emphasize the fact that in reality a change in these policies will not add to our Government's costs, as reasonable risk insurance on an actuarial basis is all that is required. Information issued in a 1964 report by the International Export Credit Institute shows that in calendar 1963 no claims had to be paid for medium-term guaranteed loans, but rather income accrued in the amount of $1,076,913 resulting from insurance premiums.

We strongly support legislation to liberalize our Government's export financing policies. Copies of this letter will go to our Utah Congressmen, whom we will urge to actively work for adoption of proper legislation. The problem is critical and your efforts to promote a prompt solution have our complete backing.

Very truly yours,

B. A. SCHEPMAN, *President.*

GLEN A. GILBERT & ASSOCIATES,
Miami, Fla., June 7, 1965.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
Senate Office Building,
Washington, D.C.

DEAR SENATOR MAGNUSON: I greatly appreciated your courtesy in sending me your letter of May 25 together with copies of letters to and from Mr. Linder of the Export-Import Bank.

First of all, I should like to say that I consider that your letter of April 5 to Mr. Linder raised many excellent and pertinent points. I also think that Mr. Linder's reply dated May 7 was typical of bureaucratic thinking to defend past actions rather than looking at a problem with an open mind and in a constructive manner. I am sure that many people could take Mr. Linder's letter apart point by point, but that is not the purpose of this letter to you.

My purpose in writing you again is to reaffirm my own humble view that S. 558 is a needed piece of legislation and its basic philosophy should be carried forward in the interest of stimulating our export trade. However, as I wrote you originally in my letter dated April 12, I believe that there is more of an interrelationship between S. 558 and the present functioning of the Agency for International Development than between S. 558 and the present functioning of the Export-Import Bank.

As I outlined to you previously, it would be my view that the purpose of S. 558 should be strictly to guarantee credit to U.S. exporters against their specific export transactions; it should not be used to make cash loans. With such a credit guarantee, U.S. exporters can secure the necessary financing from private financing sources in the same way as they can now use Eximbank or FCIA credit guarantees. The emphasis, however, under S. 558 would be to pick up the so-called soft loan situations not now being handled under Eximbank or FCIA standards.

To carry out such a concept, it would be my view that a substantial amount of the AID appropriation for economic projects, as for example $1 billion, be allocated for the purposes of carrying out credit guarantees under S. 558. As this would be an offset from AID funds, there would be no net increase in appropriations needed by the Congress to implement S. 558. Similar amounts could be placed into the capital fund to be administered under S. 558 during the next 2 or 3 years so that the fund could reach at least $3 to $5 billion, thus making possible export credit guarantees of $10 to $15 billion (i.e. three to five times the amount of the capital fund).

Under this plan, I would contemplate that U.S. private enterprise would develop the business transactions at their own expense for which they would wish to obtain the "expanded" export financing facilities afforded under S. 558. This approach would definitely contemplate a reduction in the number of personnel

now employed by AID from its present approximate 62,000 employees to simply a housekeeping and administrative force.

Thus, I would visualize that S. 558 could be cast in such a way as to have the following principal benefits:

1. Establishment of a capital fund which would permit export credit guarantees to open up $10 to $15 billion in export which would more than cover the present situation whereby "hundreds of millions of dollars of exports are being lost for want of adequate financing" as pointed out in your letter and with which statement I fully concur.

2. By offsetting AID appropriations by the amount needed to build up the capital fund under S. 558, there would be no net increase in cost to the U.S. taxpayer, and at the same time we would be bringing our foreign economic aid program into a reduced and proper perspective.

3. By placing the emphasis on U.S. private enterprise to utilize the benefits afforded under S. 558, we would be reducing substantially present costs of running the Agency for International Development.

4. Finally, such a credit guarantee program would involve full use of private capital in the United States, the cost of such private capital would be low because of the guarantee, and thus the program would in no way compete with private financing facilities, as would be the case in the event direct loans are made using Government funds.

In conclusion, I have noted the Export-Import Bank release dated June 1, 1965, which broadens Eximbank and FCIA credit protection. I believe this is without question a step in the right direction, and is no doubt a direct result of your committee's activities with regard to S. 558. However, in my opinion this step should not deter you in proceeding with the concept of S. 558, passage of which I would consider essential if we are ready to fill an important gap in our export program.

I hope that these views will be of some value to you and your distinguished committee, and if at any time I can be of any help in this matter, please do not hesitate to call upon me.

Yours sincerely,

GLEN A. GILBERT.

NEWTON HIGHLAND, MASS.

Hon. WARREN G. MAGNUSON,
Senate Office Building,
Washington, D.C.

MY DEAR SENATOR MAGNUSON: I have been reading excerpts of the hearings now proceeding before your committee in regard to the Export-Import Bank of Washington. I fear that I do not agree with the testimony presented, indicating that this agency is not accomplishing its purpose.

First, may I state that, as a banker for almost 40 years, I am familiar with the Eximbank from its inception. Over the course of years I have corresponded and visited with their officers on a variety of problems. I have always come away with a feeling of satisfaction, even when proposals made were refused or denied. There have always been sufficient reasoning and explanation why the financing could not be undertaken.

Secondly, it is my considered judgment that if the full and complete details of a given transaction are presented, the decision is promptly made and communicated to the applicant. Yet, not every transaction can be so easily resolved. In many cases further details must be secured or guarantees requested, and when these have been accomplished the answers are forthcoming.

Thirdly, it would be inconceivable that every application to Eximbank would be approved. Any bank loan officer can testify to the large number of loan refusals for any number of reasons. It is doubtful if the percentage is any greater in Eximbank than in the local commercial banks.

Lastly, this institution was founded and its title includes the word "Bank" denoting its principal function. By its very nature it would be and should be slightly conservative. Just as in a commercial institution, Eximbank is not an eleemosynary agency and is expected to effect collection of the amounts extended. I should imagine there would be widespread criticism if sizable losses were being reported annually by Eximbank.

Despite my association with the banking profession, this is written as a private citizen voicing his approval for the operating procedures of an excellent Government agency.

Respectfully,

HENRY F. KOLLER.

NATIONAL ASSOCIATION OF WHEAT GROWERS,
Washington, D.C., March 19, 1965.

Hon. WARREN G. MAGNUSON,
Chairman of Commerce Committee,
Senate Office Building,
Washington, D.C.

DEAR SENATOR MAGNUSON: The National Association of Wheat Growers takes this opportunity to state that we are in full accord with the testimony of Great Plains Wheat which was presented before the Senate Commerce Committee, March 18, 1965.

At the 15th annual convention of the National Association of Wheat Growers held in January 1965 the following resolution was adopted:

"Our growers are becoming increasingly concerned with the expanding acreage and production in other exporting countries which do not participate in holding world wheat surplus supplies to stabilize world wheat prices. Therefore, we recommend that a complete review of policy be implemented toward expanding East-West trade for U.S. wheat and flour, particularly as related to (*a*) removing the barrier of requiring the use of U.S.-flag shipping at noncompetitive costs, and (*b*) the extension of fully competitive credit arrangement."

We feel the operation of the Present Cargo Preference Act is severely restricting U.S. commercial wheat sales and results in little or no benefit to our merchant fleet or wheat producers, and cancels out any opportunity to make a significant contribution to our chronic balance-of-payments deficit. We are fully aware that our nonliner merchant fleet must have economic assistance in order to be competitive and respectfully suggest that the committee give serious consideration to eliminating cargo preference from commercial transactions involving guaranteed or insured credits, or special licensing procedures. We favor supporting the merchant marine with direct subsidies rather than cargo preference.

Even if our credit facilities are improved it is doubtful that additional commercial sales could be consummated as long as the Cargo Preference Act applies to commercial transactions.

The National Association of Wheat Growers commends the Commerce Committee for the contribution you are making toward expansion of world trade.

Cordially yours,

ANSON HORNING,
President.
KEN KENDRICK,
Executive Vice President.

JOHN WILEY & SONS, INC.,
New York, N.Y., March 15, 1965.

Hon. WARREN G. MAGNUSON,
U.S. Senate,
Washington, D.C.

SIR: I am writing on behalf of Mr. W. Bradford Wiley, president of John Wiley & Sons, Inc., who is away from the office for an extended period. Mr. Wiley is a member of the Government Advisory Committee on International Book Programs of the Department of State. At their latest meeting, Mr. Goldy asked the members for their reactions to S. 558 (the Magnuson bill on export expansion).

John Wiley & Sons is a publisher of textbooks and reference books in all of the sciences and technology, with emphasis on the university and professional levels.

At the present time our firm has what we believe to be the highest export ratio of any American publisher; 25 percent of our annual volume goes to overseas markets. Last year we were privileged to receive the Department of Commerce's E for Export Award in recognition of our substantial overseas program. Our interest in increasing the export abilities of American firms, therefore, is obvious.

In nearly every part of the world there is a great demand for books on U.S. science and technology—a demand which in many countries is far beyond our ability to fufill. The difficulty is due to the lack of convertibility of certain currencies, political risk inherent in some developing countries, and especially the difficulty we have in obtaining credit risk through FCIA insurance in individual countries. The only way we can now apply for credit risk insurance is through

the expediency of covering all of our overseas accounts, and the cost of this would be prohibitive.

At the present time we are unable to make shipment to Egypt; twice in the past year we have had to suspend shipping simply because the Egyptian Government has refused to allocate funds for payment. In over 3 years, only a trickle of books has been shipped to Indonesia. We are asked to ship on a full year's credit with no guarantee whatsoever of eventual payment. Similar problems have arisen in Brazil and they are, of course, apparent in underdeveloped countries of Africa which we consider to be expanding market areas. In all overseas markets it may be said that there are increasing demands for extended credit and an increasing number of book programs supported by foreign governments through one means or other which compete with those of American publishers.

We are in firm accord with the concepts embodied in S. 558. The U.S. publishing industry has been a leader in export expansion since shortly after the end of World War II. There are in our industry many knowledgeable people who may be of assistance in accomplishing the objectives of the Trade Development Corporation as proposed in title I. These people have been actively working with both AID and USIS, and with the nonprofit Franklin book programs as they have applied to book publishing.

The industry now sponsors and is in regular attendance at many world book trade fairs. The outstanding annual event is in Frankfurt, Germany, but there are others in Warsaw, Leipsig, Paris, London, Belgrade, and other cities. We attend these regularly. We also engage in market studies, surveys, and regular overseas promotion, and I frankly believe that our industry can and should do most of this work on its own at its own expense.

The possibility of using blocked foreign currency is an exciting one. For years we have considered the possibility of a reprint program in India under Public Law 480, but the complications have been so great that no American publisher has actively pursued such a venture. No moneys have been remitted for the few books which have been reprinted. If the roadblocks can be removed from this program, more work can be done in India, and presumably elsewhere.

Title II: This part of your proposal may be tremendously helpful to exporters and of inestimable value to the publishing industry. I assume the availability of insurance against political and credit risks would be available to individual companies rather than merely to trade associations. Our needs in this regard are very simple. If we can be guaranteed of convertibility within a specific period of time in areas where it is in the national interest to do so, exports of American scientific and technical books can be maintained or increased.

To us the simplest and most important encouragement to increased exports would be to authorize the Export-Import Bank to underwrite insurance for individual countries. If this could be done on a consistent basis, not subject to variation with every shift in the political wind, we would not only be willing to pay for this type of insurance without subsidy, but could increase our export markets on a longtime basis.

Finally, we would suggest that some specific categories of products be established as eligible for coverage under this bill. It is, of course, our conviction that books from the United States, especially those which can contribute to the education of an underdeveloped or uncommitted country, would be among the top priorities.

Very truly yours,

ANDREW H. NEILLY, Jr.,
Vice President.

WORTHINGTON CORP.,
Harrison, N.J., March 16, 1965.

Hon. WARREN G. MAGNUSON,
Chairman, Senate Commerce Committee,
Washington, D.C.:

We appreciate the opportunity to present our experience and views in the field of export financing to the Senate Commerce Committee which is presently engaged in studying this problem.

Worthington Corp. is a major manufacturer of capital goods with an important export market which has been growing for almost 100 years. With our recent acquisition of Alco Products, Inc., we have acquired an even greater stake in the worldwide export market. We are, therefore, quite concerned in

remaining competitive in this market. Our products compete quite succesfully from a technological and price point of view. Generally, we can meet the required credit terms which are being sought by the foreign customer. The Eximbank, Agency for International Development, as well as the credit insurance system administered by the Foreign Credit Insurance Association have made it possible for U.S. manufacturers to finance their export sales through U.S. commercial banking channels.

However, we are not able to compete effectively when credit terms in excess of the 5-year maximum are required by the customer. This is particularly true of contracts which are negotiated on a turnkey basis with an average value of approximately $1 million or more. Examples of this type contract might involve a diesel or steam powerplant where we face European or Japanese credit terms of 7 to 10 years.

The inability of U.S. manufacturers to compete successfully abroad in certain areas has an unfavorable effect upon the U.S. balance-of-payments problem. During the past 6 years, Worthington Corp. has sold over $146 million of American-built products abroad. This does not include the locomotive sales of Alco Products, Inc., which also had a sizable export market amounting to $222 million during this same period. The extent to which the $146 million of export sales might have been increased had we been able to match credit terms with all of our foreign creditors is, of course, speculative but we believe the increase might well have been in the range of 20 to 30 percent.

With further respect to credit terms, we wish to point out that the United Kingdom limits the financing of capital goods to 5 years on a post-shipment basis, however, longer terms may be agreed upon to match foreign competition. Japan has no fixed limits on the length of the credit period. They will, however, go out to 10 years. Most U.S. manufacturers cannot match these terms and thus become noncompetitive even though their product may be technologically superiod. It is in this area that U.S. manufacturers need financial help since we cannot maintain our technological superiority if we must sink our funds into long-term receivables which are not discountable at reasonable amounts below par.

We do not believe that the length of the credit period should be expanded across the board from the present 5-year basis to 10 years. This would not, in our opinion, be beneficial or economically desirable to the world economy. Selective increases in the credit length should be made available and be dependent upon the country, the product, and its use. Quite obviously, emerging nations who are attempting to upgrade their economy need longer terms than do countries who have already achieved this stature. In a similar vein, products which are incorporated into projects which are self-liquidating might possibly qualify for longer terms.

Other specific suggestions for improving and modernizing the export financing programs pertain to the insurance and commercial banking areas. In the insurance area, more flexibility and broader coverage of risks should be available. FCIA has provided comprehensive coverage to exporters although its policies exclude certain risk coverage. In this connection, the banks financing these tranasctions should be provided with direct and unconditional guarantees of payment provided shipment has been made and accepted by the buyer. In addition, both Eximbank guarantees and FCIA insurance should cover losses arising out of the buyer's refusal to accept delivery of the shipment. The guarantee and insurance would only be effective if the buyer was in default under the contract covering the shipment. The FCIA policy should cover payments in dollars or fully convertible currencies of receivables which arise from construction work performed abroad. This would be particularly beneficial to us on turnkey type projects when often local currency costs may amount to as much as one-third of the total contract. The predetermined country or buyer dollar ceiling should be eliminated when dealing with credit-worthy buyers and the exporter is prepared to carry the uninsured portion at his own risk.

In the commercial banking area, perhaps the item most needed to assist in export financing is an institution who would have the ability to rediscount insured export finance paper with full recourse to the banks. This would release additional sources of funds which are presently frozen in the commercial banks.

The financing problems outlined in this letter relate principally to Worthington Corp. Alco Products, Inc. has been able to obtain assistance in the form of longer terms on certain sales of their locomotives abroad.

From our reading of title II—Export Financing Assistance, S. 558, it appears that the aim is to strengthen the present scope and authority of the Export-Import Bank. This, in our opinion, is the proper approach and direction to take. The stature which the Eximbank has achieved in the relatively short years of its existence is a tribute to the manner in which it has carried out its responsibilities. This Bank is a leading institution in world financial operation and has obtained the enviable reputation of a sound and valuable banking institution.

We believe that most of the suggestions which have been briefly summarized in this letter can be implemented through the granting of additional authorities to the existing institutions in the field of export financing. If this can be accomplished, additional facilities will be available to U.S. busnessmen to sell more of their products abroad. The resulting increase in U.S. exports with its favorable effect on our trade balances will produce an overall improvement in our balance-of-payments deficit thus serving the national interest.

Respectfully yours,

W. A. FINN,
Vice President, International.

AMERICAN EMBASSY,
Caracas, Venezuela, March 4, 1965.

DEAR SENATOR MAGNUSON: I have two purposes in writing to you. * * *

Secondly, I read with great interest in a recent issue of the Journal of Commerce of your sponsorship of legislation designed to better shape the Eximbank for the financing of exports, particularly to less developed countries. As you may recall from our conversations in Lima, I have long been a stanch advocate of more flexibility in the Eximbank's policies and practices in order to enable our exporters to offer more competitive terms of financing abroad. My move to Caracas, where I am also commercial attaché, has not altered my viewpoint one whit, and I wish you success with your proposal. Time after time, I see very profitable sales slip away from us because we do not offer terms of payment close to those of our competitors. I hasten to add, however, that I do not advocate irresponsible financing of exports such as our Japanese friends have been so often guilty of offering. Nor do I believe that our manufacturers and suppliers should simply wring their hands and cry for all-out Government assistance without a bit of effort on their own part. Our producers can do a great deal more than they do out of their own resources, but they should have a facilitating hand from the U.S. Government. In principle, it would appear from the report I read that your proposal would provide just such help. I will follow with interest the course of your project as it wends its way through Congress.

With warmest good wishes, I remain,

Very truly yours,

ROBERT W. ROSS,
Commercial Attaché.

AFFILIATES IN MANAGEMENT SERVICES, INC.,
New York City, N.Y., February 10, 1965.

Re Magnuson-Adams—Export Expansion Act of 1965 No. 10, January 15, 1965.

Hon. W. G. MAGNUSON,
Senator, State of Washington,
Senate Office Building, Washington, D.C.

DEAR SENATOR: This is to extend a firm, congratulatory handshake on the timely constructive endeavor to realistically and effectively deal with the covering major problems in our export expansion program.

This opinion is based on business and pleasure visitations to over 48 countries in recent years—during which I took time to study our AID program and our economic-commercial Foreign Services in 23 major locations.

The findings, along with related domestic experiences in our export expansion program—well justify the meritorious objectives set forth in your proposed legislation.

This strong conviction prompts me to suggest the possible use of this letter as an additional endorsement to help effect the passing of this sorely needed legislation.

Sincerely,

AL N. SEARES.

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