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Assigned to: Johns Date: 3/23

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Date Due: 4/7

☐ Director's Correspondence ☐ Testimony ☒ Other

	Draft		Final	
	Last Name (Please Print)	Date	Last Name (Please Print)	Date
1 Author				
2 Assistant Dir/Exec. Secty				
3 Confidential Assistant				
4 Congressional/Press				
5 Associate Director				
6 General Counsel	<u>Neil</u>	<u>Feb 2</u>	<u>EIA</u>	
7 Special/Exec. Asst.				
8 Director				
9 Confidential Asst.				
10 Corresp. Control				

Other Agencies That Have Cleared: _____

Comments: Draft: _____ Final: _____

O. E. "GENE" LUSSIER, JR.
GROUP VICE PRESIDENT



Date: 3/23/93
A. Nelson
JHG

March 19, 1993

Dr. John Gibbons
Executive Office of the President
Room 424
Old Executive Office Building
Washington, DC 20500

SIG of JHG d/r if r
Stationery OSTEP
DATE OUT 4/7/93

Dear Dr. Gibbons:

I truly enjoyed meeting with you during the Electronic Industries Association visit with President Clinton and Vice President Gore.

We appreciate your willingness to review our view of two critical technologies. I will prepare for you short specific briefings on multi-chip modules and sensor technology.

We talked briefly of the federal labs, dual use and conversion programs. I hope you will ponder my suggestion of a "GI Bill" for high technology smaller business development.

I also touched briefly on procurement policy and thought a review of the attachment relative to the "Section 800 Panel" Report may be of interest.

Please do not hesitate calling on EIA President Peter McCloskey, John Kelly, or myself for any assistance.

Very truly yours,

Subject: TECHNOLOGY FOR AMERICA'S ECONOMIC GROWTH, A NEW DIRECTION TO BUILD ECONOMIC STRENGTH (PAGE 22)

Reference: Procurement Policy, "Section 800 Panel" Report

Issue: HOW CAN THE FEDERAL GOVERNMENT MOST EFFECTIVELY UTILIZE THE COMMERCIAL MARKETPLACE IN THE PROCUREMENT ARENA?

Background: Industry believes that the "Section 800 Panel" Report portrays an accurate picture of the impediments encountered by industry in offering commercial products to the DoD. Moreover, we believe that one of the economic principles underlying the proposed commercial items statute is that the forces of the commercial marketplace may be relied upon as much by the U.S. Government as they are by all other buyers to assure that prices and terms are fair and reasonable and that product quality meets contract requirements.

When the government acts as another player in a larger commercial marketplace, it enjoys the same protections as other buyers and needs no unique protections. To enable the Panel's proposed statute to fulfill its underlying principle more clearly, we suggest the following recommendation.

Recommendation: The Panel's approach to exemptions requires (i) listing statutes that would not apply to commercial items, (ii) amending numerous other statutes with language exempting commercial items, and (iii) supplanting certain other statutes relating to pricing and audit with section 2xx5 of the proposed commercial items statute. The dangers in these approaches are that statutes unique to government contracting which are unacceptable to commercial vendors may be inadvertently omitted from the exempt list or may not be successfully amended to exempt commercial items for various political reasons.

We are concerned that changes recommended by the Report do not go far enough in removing the barriers so adequately addressed by the Panel. From our perspective, this would most appropriately be accomplished by the industry recommended solution addressed in the Report on page 8-31. **The recommendation is as follows:**

(a) Exemption From Present Law.—Procurements of commercial items shall be conducted pursuant to Section 4 of the Office of Federal Procurement Policy Act (41 U.S.C.(6)) and shall be exempt from any other requirements of law not specifically reserved in this subchapter, unless the same requirements are equally applicable to business entities which are not under contract to the Federal Government.

We urge the Administration to offer this approach as part of the Section 800 Panel legislative solution as a means of realizing significant cost savings in the Federal Government procurement process. Specific benefits include:

- 1) Increasing the Government's ability to purchase state-of-the-art technology,
- 2) Providing access to proven quality, readily available, competitively-priced commercial products,
- 3) Increasing competition by making contracting with the Government an attractive proposition,
- 4) Encouraging the integration of commercial and military technology, and
- 5) Reducing paperwork and bureaucracy.

EIA is greatly encouraged that the Administration has recognized procurement policy issues as part of the Technology initiative. Please be assured that we are available for further discussion on this or any other procurement issue by contacting Ella Schiralli, Staff Director at (202) 457-4991.



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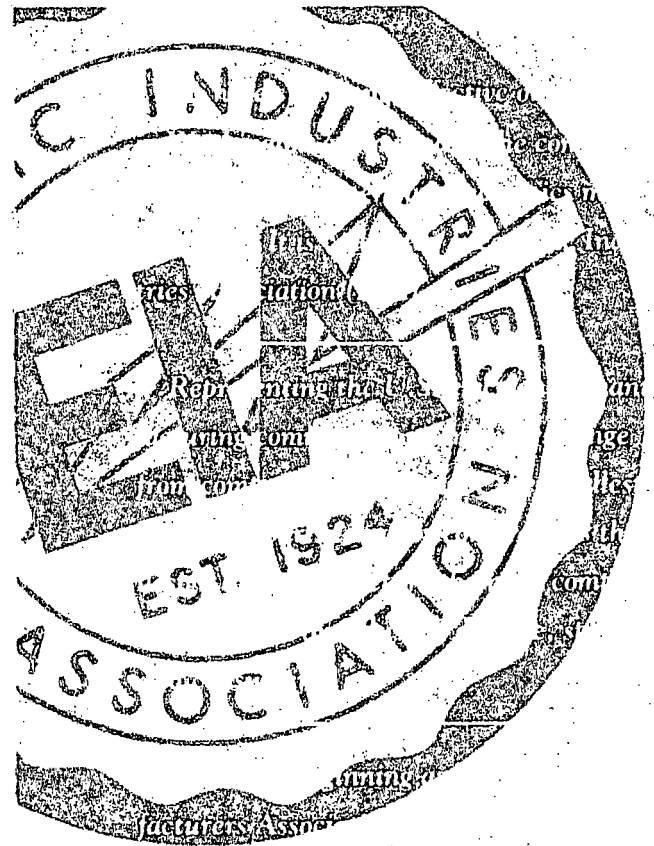
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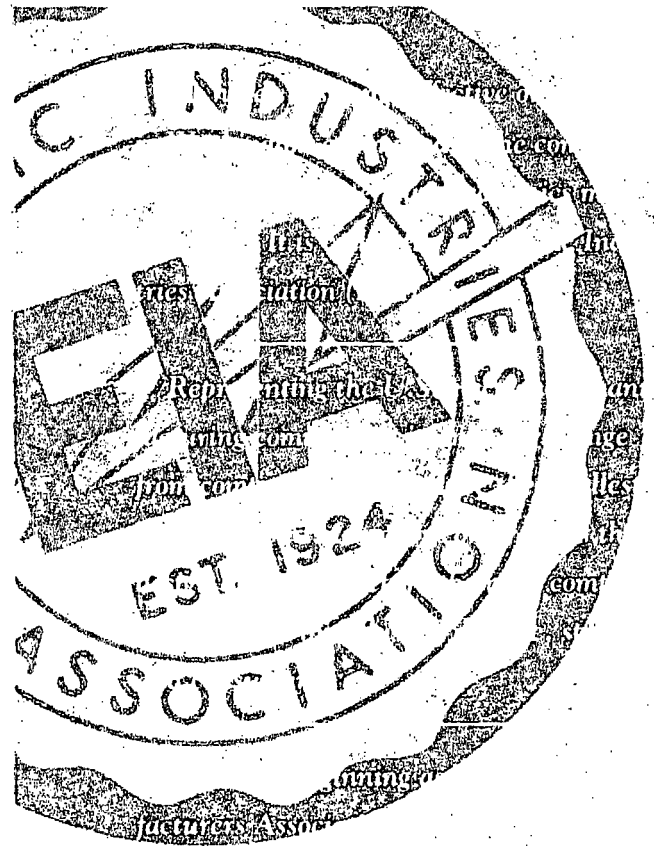
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SPRING 1993
WASHINGTON, D.C.

EXECUTIVE REPORT

TO THE ELECTRONIC INDUSTRIES

TREASURY SECRETARY BENTSEN TOPS THE LINEUP OF GUEST SPEAKERS FOR 93 SPRING CONFERENCE

Treasury Secretary Lloyd Bentsen will be the keynote speaker for the Electronic Industries Association's (EIA) Annual Government/Industry Dinner, to be held March 16, 1993 at the J. W. Marriott Hotel in Washington, D.C.

The black-tie dinner will also feature the presentation of the industry's highest award, the EIA Medal of Honor.

This year the Medal will be presented to John V. Roach, chairman of the board and chief executive officer of Tandy Corporation.

The EIA Government/Industry Dinner will attract more than 700 senior executives and their spouses representing the U.S. electronics industry and the Federal Government. The Dinner is the highlight of the Electronic Industries Association's Spring Conference. For the first time the Dinner features a silent auction with proceeds benefiting the Electronic Industries Foundation.

The Conference includes nearly 100, Group, Division, Department and Council meetings and is scheduled for March 14-18, 1993 with members of the Senate leadership participating in the industry luncheon meetings and special sessions. Luncheon speakers include:

Monday, March 15th

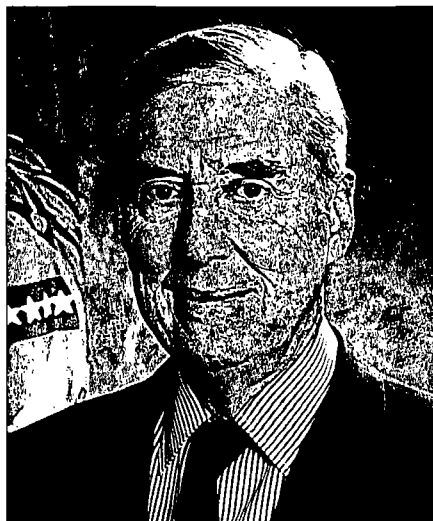
The Honorable Trent Lott (R-MS)
United States Senate

Tuesday, March 16th

Charles Bierbauer
Senior Washington Correspondent
CNN

Wednesday, March 17th

The Honorable Dale Bumpers (D-AR)
United States Senate



Treasury Secretary Lloyd Bentsen



Senator Trent Lott (R-MS)



*Charles Bierbauer
CNN Senior Correspondent*



Senator Dale Bumpers (D-AR)

For additional information concerning the EIA Spring Conference and Government/Industry Dinner, contact EIA at (202) 457-4900

ELECTRONIC INDUSTRIES ASSOCIATION



December 30, 1993

Dr. John Gibbons
Executive Office of the President
Old Executive Office Building
Room 424
Washington, D.C. 20500

Date Rec'd 1-6-94

ACTION to
INFO to GIBBONS

Gillman
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Hanson/Woiles
VON HIRPEL/Sullivan

SIG of _____

Stationery _____

DATE DUE _____

Dear Dr. Gibbons:

On behalf of the members of the Electronic Industries Association (EIA), I would like to present you with a copy of our recent white paper on Defense Conversion Programs.

EIA, the oldest and largest trade association for the electronics industry, is comprised of more than 1,000 member companies involved in the design, manufacture, distribution and sale of electronic parts, components, equipment and systems for use in consumer, commercial, industrial, military and space use. In 1993, the industry was responsible for estimated sales of more than \$308 billion in factory sales of electronics products. For this reason, EIA has an abiding interest in the conversion programs relating to the U.S. defense industrial base.

The enclosed white paper, prepared by a task group of the EIA Government Division Board of Directors, briefly discusses the major obstacles faced by defense companies as they confront the challenge of conversion. The paper suggests government actions that can significantly improve the prospects for maintaining an electronics industrial base capable of supporting future government needs.

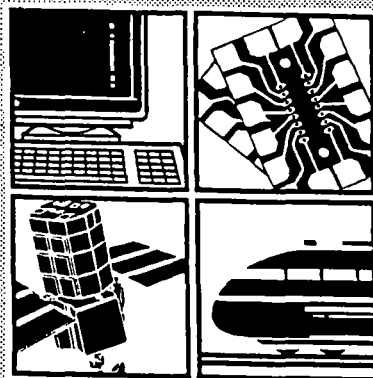
I hope that this analysis will be of assistance to you in the development of policy positions concerning the defense industrial base. If EIA can be of further assistance to you, please do not hesitate to contact Ms. Ella Schiralli, staff director of government relations at (202) 457-4991.

Sincerely,

Dan C. Heinemeier
Vice President
Government Division

enc.

WHITE PAPER
ON
DEFENSE CONVERSION PROGRAMS



Government Division
ELECTRONIC INDUSTRIES ASSOCIATION
2001 Pennsylvania Avenue, NW
Washington, DC 20006-1813

WHITE PAPER ON GOVERNMENT DEFENSE CONVERSION PROGRAMS

EXECUTIVE SUMMARY

Defense companies create and maintain some of the most important technologies and employee skills available to this nation. Due to national security and budget trends beyond their control, they find their potential markets shrinking fast, with no obvious solutions in sight.

Notwithstanding the laudable goals of the Clinton Administration, current programs in technology reinvestment are neither adequately funded nor properly designed to address the massive needs of the industrial base now supporting government requirements. Despite the best of intentions, civil servants involved in administering technology reinvestment programs are unqualified to pick winners and losers in a commercial marketplace where market demand alone determines success or failure. In addition, the amount of money currently contemplated to fund conversion programs is insignificant in relation to the need. Perhaps the most significant problem facing defense companies is the challenge of developing commercial-style market understanding, access and related marketing capabilities. Government reinvestment programs simply do not address this major obstacle to success.

Notwithstanding these problems for current conversion approaches, there are significant steps the government can take to improve the prospects of the electronics industrial base. The Administration can reform procurement regulations that add significant overhead costs and burdens not required in the commercial sector. It can emphasize use of defense firms to meet major, non-defense program needs. It can support the sale of defense products overseas. And it can work to enact various changes in trade and taxation policy to enhance the economic health and competitiveness of all U.S. businesses, including defense.

The positioning of the U.S. economy for a leading role in the global marketplace will require continued public and private sector efforts to enhance national competitiveness. The essential challenge for government is the formulation of policies to strengthen American international competitiveness through encouraging improved productivity and investment throughout our economy and ensuring access to markets abroad.

WHITE PAPER ON GOVERNMENT DEFENSE CONVERSION PROGRAMS

Defense companies create and maintain some of the most important technologies and employee skills sets available to this nation. Due to national security and budget trends beyond their control, they find their potential markets shrinking fast, with no obvious solutions in sight. From the perspectives of international competitiveness, leadership in critical technology, and employment opportunities, we need specific national strategies to ensure the survival of the core competencies existing in these companies.

Notwithstanding the laudable goals of the Clinton Administration in seeking to promote defense conversion/diversification, current programs in technology reinvestment are neither adequately funded nor properly designed to address the massive needs of the industrial base now supporting government requirements. For the reasons outlined below, these programs will not be adequate to the task of promoting effective defense conversion on a broad basis. However, there are significant steps the government can take to improve the prospects of the defense electronics industrial base.

Current government approaches are incapable of assisting industry effectively

Despite the best of intentions, civil servants involved in administering technology reinvestment programs are unqualified to pick winners and losers in terms of the future tests of the commercial marketplace. If government conversion programs depend on defense companies' success in capturing market share from entrenched competition in established commercial markets, they are likely only to foster the same scale of failures that characterized diversification efforts of the 1970s. Market demand alone determines corporate winners and losers, and anticipating the needs and reactions of markets is a sophisticated and challenging task, even for company planners with decades of experience focussing on discrete market segments. Government officials cannot hope to centrally plan a successful, wide-ranging conversion effort for industry.

The amount of money currently contemplated to fund conversion programs is insignificant in relation to the need given the defense downsizing now under way. It may be that effective assistance could be offered to the smallest firms, but here again, how does the government predict--let alone guarantee--the existence of future markets for the output of these firms?

Perhaps the most significant problem facing defense companies as a whole is the challenge of developing commercial-style market understanding, access and marketing capabilities. The transition from defense to commercial markets requires years to bring to fruition if it is to be accomplished at all. The experience of flat or declining defense budgets in the early '70s and the actions of many defense firms to transition to commercial ventures reveals that most such ventures were totally unsuccessful. The commercial environment is so different from that of defense that even companies with marketable technologies face internal cultural barriers to success simply because they have structured themselves in response to the dictates of the government business environment. Government reinvestment program efforts simply do not address this major obstacle to success.

A final, fundamental flaw in current government approaches is the implicit acceptance of the notion that technology drives markets. In reality, the converse is true: markets drive technology. Market pull, not technology push, is the reality of the market place. Any conversion approach which emphasizes technology as a driver, not an enabler, is doomed to failure.

Toward a proper role for government

It is not desirable for the government to assume the burden of re-tooling the defense industry and positioning it for success in commercial, non-defense markets. However, there are numerous steps the government can take to increase the chances that defense firms will remain viable and our technology base will be protected in spite of current adverse market trends. These include 1) utilizing defense firms to meet major, non-defense program needs; 2) eliminating many of the myriad government-unique procurement policies that frustrate industry's use of standard business practices and make it less competitive; 3) supporting the sale of defense products overseas; and 4) enacting various policy changes in trade and taxation policy to enhance the economic health and competitiveness of all U.S. businesses, including defense.

Major programs for the '90s

Historically, when the United States has undertaken major leadership in programs for the benefit of the country as a whole, we have always succeeded in overcoming the resulting technological and political challenges. Examples include development of rural electrification systems, interstate highways, and the Apollo-moon program. Today, as in the past, technological challenges are evident in the form of major needs that government can adequately address. Programs such as creating information superhighways, improving nation-wide telecommunications systems capability, restoring our interstate highway infrastructure, upgrading our air transport systems, major initiatives in crime and fraud protection, and implementing intelligent vehicle highway systems are all major examples in which government leadership may be helpful and government funding essential to success.

Although poorly positioned to compete head-to-head in many commercial markets, defense firms do bring important skills to bear on such major program needs. Among these are development of complicated systems architectures, managing sophisticated systems engineering and teaming efforts, and working effectively with government organizations. These skills may uniquely qualify defense firms to undertake such projects, and the nation can gain dramatically in the process.

Thus, an action plan to promote defense conversion could include encouragement to defense companies to gain the domain knowledge necessary to bid on such programs, and special consideration for them in proposal evaluation. Although it may seem politically implausible to provide special assistance to major defense companies in this way, the government's need to maintain key skills and technological capabilities dictates new thinking on such approaches. Defense Secretary Les Aspin's "bottom-up" review has embraced such

thinking in its recognition that some industry segments must be maintained through government funding despite the lack of current large-scale need for the systems they produce. Using defense firms to perform on major infrastructure programs generates tangible benefits the nation can put to use immediately, and preserves skills and technologies for the future.

A more commercial-like government procurement system

The Clinton Administration is urging defense companies to reform the way they do business to be more commercial-like in their business practices and to compete in commercial markets. A major impediment to accomplishing such a refocussing is the government's own procurement regulations that require companies to establish costly systems and internal bureaucracies that add extensive overhead costs not required in the commercial sector. When these firms attempt to compete with commercial firms while carrying this unproductive overhead, the result is predictable. Clearly, the government can play a major role in enhancing industry's competitiveness by reforming the way it does business. This is not easy, and goes far beyond the Department of Defense, as evidenced in the recently-issued National Performance Review.

The Defense Science Board's July 1993 study is only the most recent in dozens of government and private studies that have urged fundamental changes in government procurement rules and business practices. The major areas in which reforms are needed include: government accounting and audit requirements; unique product specifications and standards; requirements to surrender rights to intellectual property; inappropriate requirements for cost or pricing data; and other unique contract terms and conditions that add cost or risk unknown in the commercial environment.

An excellent means of addressing these issues would be to enact a new, stand-alone statute for commercial products procurement. This would add a new chapter to Title 10 of U.S. Code to expressly supersede any other provision of law and mandate use of commercial terms, conditions, business practices and specifications.

To address even defense-unique procurement, DoD should eliminate unnecessary military specifications, regulations and practices to the greatest extent possible to enable industry to use more commercial-like buying practices. This will permit commercial developments to be easily incorporated whenever they are applicable.

Overseas sales: a key interim step to ensuring industry's viability

Among the most important near-term steps the government can take to ensure viability of the defense industry is to provide strong support for international sales opportunities. Such support can take many forms, from government-to-government contacts to encourage purchases of equipment from U.S. sources to export loan guarantees on a par with those provided by foreign governments to our international competitors. Other important steps include relaxation of U.S. export controls regimes recognizing the reality

of foreign availability of high-quality defense-related electronics products. The expansion and maintenance of U.S. defense electronics market share abroad will continue to be a key factor in maintaining employment and production capability as our industry approaches the 21st century. An excellent report on this topic is "Balancing the National Interest," published by the National Academy Press in 1987. The recommendations in that report are still valid, and even more important today.

National tax and trade policies should be revised to enhance competitiveness

The positioning of the U.S. economy for a leading role in the global marketplace of the next century will require continued public and private sector efforts directed toward enhancing overall national competitiveness. The essential challenge for government is the formulation of policies that will encourage firms to take actions required to strengthen American international competitiveness through improving the rate of productivity and the pace of investment throughout the economy. What is needed is a thorough readjustment of how government relates to industry, including a conscious commitment to a comprehensive policy enhancing our industrial competitiveness.

The federal budget must be brought gradually into balance, with the goal being approximate balance over the remainder of the decade. Continued deficit reduction must be pursued concurrent with tax policies that serve to enhance long-term national competitiveness. Tax policy must recognize the global nature of the U.S. electronics industry in its many sectors, and avoid burdening business with costs which make it less competitive abroad.

The U.S. must adopt a comprehensive trade policy which recognizes the close relationship between exports and long-term economic health and national security. The twin burdens of outmoded export controls and inadequate export financing assistance continue to hobble our industry in competition with rivals overseas. Trade policy must include a commitment to enhance U.S. exports by 1) removing unilateral export controls, 2) aggressively promoting our exports through coordinated promotion programs, and 3) intensifying efforts to ensure fair treatment of U.S. products and services overseas.

The government should embrace the strategic goals of making the U.S. the world's best place in which to manufacture and increasing overseas market access by U.S. companies. The following actions should be undertaken to achieve these goals:

- work to open markets abroad and eliminate unfair trade practices;
- continue pre-competitive funding for commercial science and technology advancement;
- reduce U.S. government regulation of the sale of high-tech products sold abroad;
- implement tax policies to encourage private savings and investment in new plant and equipment;

- reduce the federal deficit to increase availability of domestic capital; and
- encourage legitimate joint production activities (and appropriate mergers and consolidation in the defense industry) through flexible approaches to antitrust policies.

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ELECTRONIC INDUSTRIES ASSOCIATION

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(202) 457-4900 FAX (202) 457-4985



EIA ON YOUR BEHALF

There's a strong, effective organization in Washington committed to the competitiveness of the American electronics manufacturer. It is called the *Electronic Industries Association (EIA)*.

Representing the U.S. electronics manufacturing community, its members range from companies that produce the smallest electronic parts to major corporations that design and manufacture the most complex systems used by industry, defense, space and consumers. For nearly seven decades, EIA has been a strong advocate on behalf of the U.S. electronics industry, successfully influencing important legislative initiatives which impact significantly upon your business.

Why Your Company Needs To Be An EIA Member. As a member of the Electronic Industries Association your company will have a voice in the organization which is helping to shape the future of one of the fastest growing manufacturing sectors in the world.

Your EIA Member Benefits Include:

A competitive edge in the marketplace. Keep informed, stay on top of trends through EIA's information resources. Valued at thousands of dollars, EIA's information resources will far exceed the cost of your membership.

Access to staff of professionals and specialists. With more than 160 full time staff, EIA can be an extension of your staff with no additional cost to you.

Forums to work with other electronics companies to achieve common goals. Many of the Association's forums provide opportunities to interface with the customer community, both domestic and international.

Networking with industry peers. Work to resolve common problems by active participation in EIA. Make contacts and keep abreast of industry developments through informal networking at EIA conferences, committee meetings and trade shows.

Helping shape the future of the U.S. electronics industry. Participate in meetings and serve on committee where your input will have direct impact on the types of services and program EIA offers its members.

ORGANIZATIONAL STRUCTURE

The association is organized along specific electronic product lines. EIA Groups and Divisions are the action centers around which most of the Association work revolves. They provide the concentrated and specialized attention required to meet the challenges facing the electronics industry today.

The major product Groups and Divisions include:

Components, Consumer Electronics, Electronic Information, Industrial Electronics, Government, and Telecommunications

EIA's Departments The Association's five major Departments provide valuable services and programs of a broad nature designed to benefit the U.S. electronics industry as a whole.

The Departments provide the Association with administrative, legal, accounting, and production support.

EIA Marketing Services Department The marketing Services Department provides statistical, analytical, and market research information to all EIA members and to the industry at large...important basis for informed business decisions.

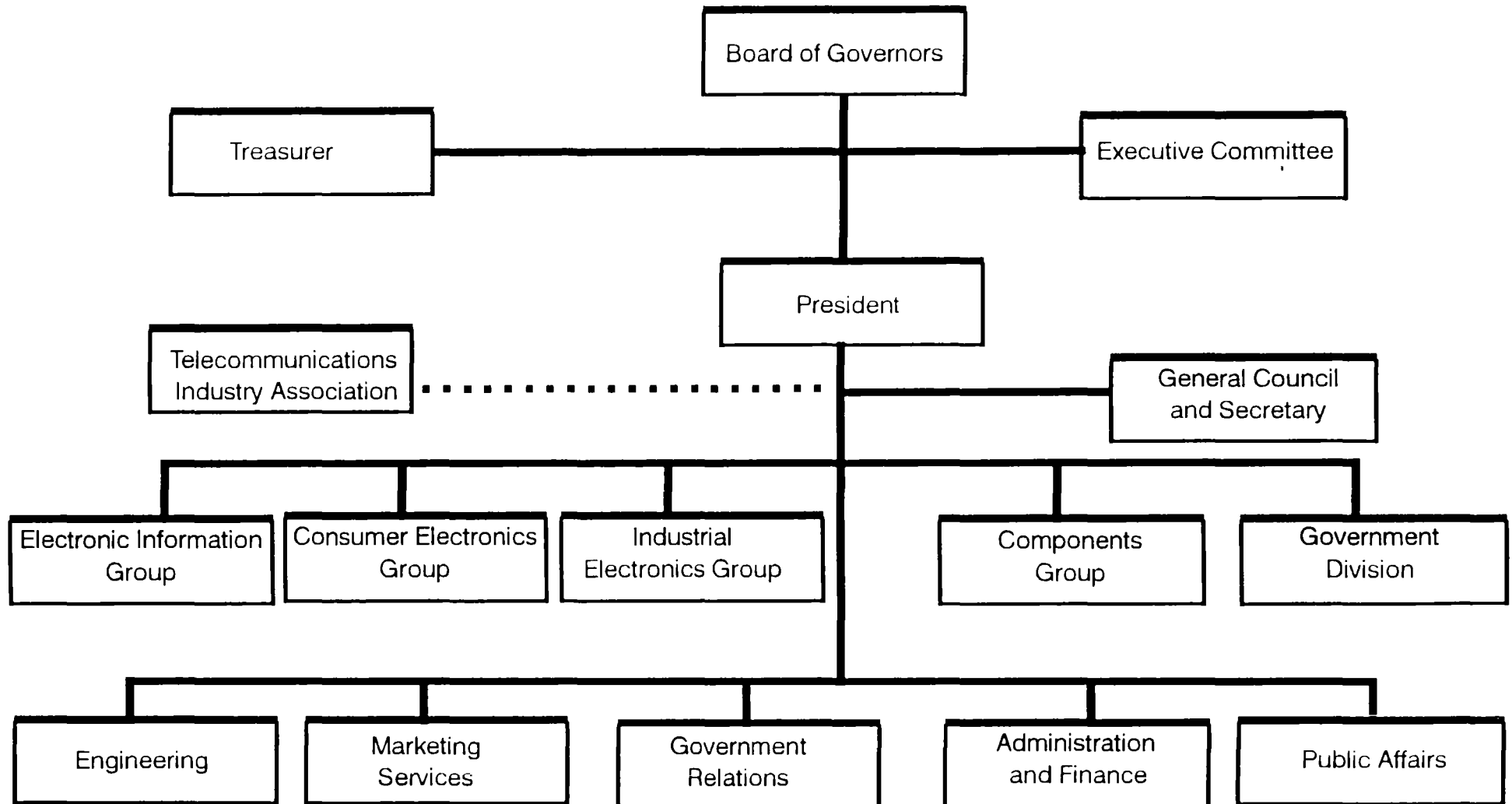
Engineering Department Among the many activities and functions performed by EIA, the development and publication of engineering standards is regarded as one of the most valuable, according to a Gallup poll of EIA members.

EIA Government Relations Department EIA's Government Relations Department provides the professional infrastructure through which the U.S. electronics industry addresses the legislative and regulatory challenges which continuously confront your business... including environmental, government procurement relations, human resources.

For specific information about membership contact EIA's Membership office at (202)457-4004.



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FALL 1993
WASHINGTON, D.C.

EXECUTIVE REPORT TO THE ELECTRONIC INDUSTRIES

HIGH TECH PROVISIONS SUPPORTED BY EIA INCLUDED IN FINAL BUDGET PACKAGE

A number of key high-tech priorities called for by the Electronic Industries Association (EIA) were included in the final budget reconciliation package which was passed by Congress.

The package included the extension of the Research & Development tax credit, extension of Section 127, employee and educational assistance programs, the retroactive renewal of the Generalized System Preferences (GSP) program, an enhanced corporate expensing allowance

for small business, and a 15 year period for the amortization of intangible assets.

"We are pleased by Congress's recognition of the importance that the high-tech community plays in driving the nation's economy", according to EIA President Peter F. McCloskey.

"We are especially pleased with the inclusion of a meaningful extension of the R&D tax credit, as we worked very hard on gaining this substantial incentive in the final bill. We consider the provision in the conference agreement as a

major victory, not only for our Association, but our industry and America as a whole."

McCloskey also noted that other provisions which EIA opposed in the original House and Senate Bill's were improved in the conference agreement.

Among these were the proposals to eliminate deferral of current taxation of active income earned abroad and the overall corporate tax rate.

ELECTRONICS EXPORTS GROWTH RATE REMAINS HEALTHY DESPITE SLUGGISH WORLD ECONOMIES

EIA announced recently that preliminary data indicates U.S. exports of electronics products reached \$41 billion for the first quarter of 1993, a growth rate of 8.5 percent over last year's exports of \$37.8 billion during the same period.

Imports of foreign electronics products reached \$46.8 billion, or 15.9 percent over last year's first quarter imports of \$40.4 billion.

The current trade balance in electronics reflects a deficit of approximately \$5,746 billion.

In announcing the trade statistics, EIA President Peter F. McCloskey stated, "Although U.S. exports continue to show substantial growth, imports are growing at an even faster rate. This is due to the strengthening of the U.S. economy while the Asian and European markets remain weak."

U.S. Electronics Trade First Half of 1993

(millions of dollars)

	Imports			Exports			Balance of Trade		
	1993	1992	%ch.	1993	1992	%ch.	1993	1992	%ch.
Electron Tubes	289	312	-7.4%	379	327	15.9%	90	15	n/m
Passive Components	4,521	4,273	5.8%	3,019	2,853	5.8%	(1,502)	(1,420)	5.8%
Solid State Products	9,169	7,425	23.5%	9,213	7,685	19.9%	44	260	-83.1%
Consumer Electronics	7,201	6,694	3.4%	1,501	1,476	1.7%	(5,700)	(5,488)	3.9%
Telecommunications	4,278	3,869	10.6%	4,700	3,938	19.3%	422	69	n/m
Defense Communications	525	546	-3.8%	1,288	1,221	5.5%	763	675	13.0%
Computers & Peripherals	18,058	14,503	24.5%	15,118	14,907	1.4%	(2,940)	404	n/m
Industrial Electronics	1,611	1,401	15.0%	4,012	3,736	7.4%	2,401	2,335	2.8%
Electromedical Equipment	1,140	1,077	5.8%	1,816	1,674	8.5%	676	597	13.2%
	46,792	40,370	15.9%	41,046	37,817	8.5%	(5,746)	(2,553)	n/m

Source: U.S. Department of Commerce, compiled by EIA Marketing Services Department
n/m - not meaningful