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001. memo	K.C. Fung to Laura Tyson; re: Meeting with Sir Leon Brittan (4 pages)	02/11/1993	P1/b(1)
002. report	re: U.S. Government Report (2 pages)	01/13/1993	P1/b(1)
003. memo	Michael Kantor to POTUS; re: Meeting with EC Commissioner Brittan (2 pages)	02/12/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
Council of Economic Advisers
Laura D'Andrea Tyson
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FOLDER TITLE:

Trade Policy [1]

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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Ellen Frost
(to be redrafted)

TRADE POLICY: A "BIG PICTURE" FRAMEWORK

(preliminary outline)

I. Trade Policy and the Domestic Economy

o Trade is not a goal in itself, but rather a means to a better life. Trade is associated with economic growth, higher productivity, higher value-added jobs, and higher real wages and incomes.

o Trade policy is only one of several instruments of the President's economic policy. The goals of that policy are economic growth and a higher standard of living for the American people. Other instruments include macroeconomic policy, technology policy, and labor policy, to name a few.

o Since the mid-1980s, export expansion has become a major engine of U.S. economic growth. In order to meet the goals of the President's economic policy, trade policy must emphasize market-opening measures rather than market closing.

o Export expansion means job growth. By 1990, more than 1 in 6 U.S. manufacturing jobs were related to merchandise exports, compared to just 1 in 8 jobs only four years earlier. Merchandise exports account for over 7.2 million jobs, of which 3.3 million are manufacturing jobs. Jobs associated with service exports may amount to another 3 million.

o Trade enhances growth in output, productivity, and real wages. Average wages for workers in non-agricultural exporting sectors, where American products are most competitive, substantially exceed the overall U.S. average.

o Consistent with the President's overall policy, trade policy must therefore become "pro-active." Traditional trade policy means enforcement of trade laws plus negotiations. Decision-making tends to be reactive in nature. In this Administration, the watchwords of trade policy should be "anticipate, coordinate, and promote."

II. Dilemmas of Trade Policy

o Trade is one of the most visible symptoms of America's competitive problem, but trade policy is only a small part of the solution. The major determinants of the U.S. trade balance are macroeconomic in nature: consumption/production and savings/investment ratios, differential growth rates, and exchange rates. These are beyond the USTR's control.

o What trade policy can do is alter the composition of trade, the volume of trade, and the pace of adjustment of individual companies and their workers. But in our system this process is susceptible to micromanagement, squeaky wheels, and pork-barrel

politics.

- o Critics of trade are more vocal and more politically active than those who benefit from trade. Trade has become a symbol of "change as the enemy;" the task is to transform into "change as our friend." (Inaugural Address).

- o Even though trade is only one instrument of economic policy, the budget deficit rules out many domestic policy options. This situation results in more pressure to stimulate the economy through trade, because expanding exports is much less expensive than, say, labor retraining.

- o Trade is blamed for manufacturing job losses, but in fact U.S. manufacturing has been shedding workers as productivity has risen. This means that protecting these industries will not save low-wage, low-skilled jobs.

- o The U.S. trade deficit is going to get worse before it gets better. The combination of economic recovery in the United States and sluggish growth in Europe and Japan means a higher U.S. trade deficit in 1993.

- o The U.S. government has had little experience in dealing with declining industries. The policy record alternates between extreme laissez-faire and last-minute intervention. We have no system of "recession cartels" and only limited experience with conditionality (imposing conditions on industry in exchange for import relief).

USIA
interested
in doing it

III. Strategies of Trade Policy

- o Major objectives of trade policy should be consistent with our economic goals at home. These objectives should include market-opening, transparency, greater harmonization of competitive conditions, some minimal standards of reciprocity and national treatment (note: these can limit our freedom, too), and adequate enforcement and dispute settlement procedures.

- o Trade policy must also incorporate "new" issues arising in a changing world. Chief among these are the global environment and international labor standards. Others (both new and not so new) include competition policy, investment policy, technology policy, and intellectual property rights.

- o Trade policy should stick primarily to growth and competitiveness. Trade can provide carrots and sticks to influence larger trade-offs (e.g. human rights), but this role can be easily misused. "Lightswitch diplomacy" based on export sanctions stifles short-term exports and undermines our long-run reliability as a trading partner. In general, protecting trade from political interference should be of higher priority in the Clinton Administration than in the Carter Administration.

o Trade policy should continue to pursue a variety of different strategies at the same time. Strategies may be sectoral (e.g. semiconductors, auto parts), regional (e.g. ASEAN), or functional (minimum wages). To the extent that trade strategies of this sort are partial, careful attention must be paid to linkages with other sectors (e.g. user industries) as well as to their overall economic impact.

eg. "cost per job saved"

Kanter
flexibility,
program
over
principles

IV. Multilateral, Regional, Bilateral and Unilateral Options

o Preserving and strengthening the multilateral trading system is like riding a bicycle. If you don't keep trying, you fall off and get hurt. But speed can vary.

o Regional and bilateral approaches can be trade-liberalizing and useful. These should be pursued where appropriate, but not to the detriment of the multilateral system. They should maintain the principle of openness, so that they do not stimulate compensatory, exclusionary measures on the part of other countries that feel left out.

o Regional and bilateral arrangements to which we are not a party raise a special set of questions. Are they trade-diverting or trade-expanding? Are they legal under the GATT? In the case of regional integration, is there net liberalization (as the EC argues) or net market closing? Are U.S. firms investing in those countries treated as local nationals?

o To some extent Japan is a special case. Contrary to popular impressions, Japan is changing rapidly. But Japan is in the grip of recession, and its business practices are still clubby and relatively closed. Japanese leaders still seem to need "gaiatsu" or foreign pressure to undertake reforms, even those that are in Japan's best long-term interest. Do we need a "Japan policy?"

V. Policy Issues Requiring Near-Term Resolution

(to be supplied, subject to discussion)

Links with competitiveness policy?

Criteria for "results-based" outcomes?

Sectoral objectives?

Country policy? (Japan, China...)

Energy trade? (e.g. oil import fees, Canada/Mexico)

"Early warning" system?

THE WHITE HOUSE
WASHINGTON

February 11, 1993

MEMORANDUM FOR ECON2

FROM: DR. JOHN GIBBONS (OSTP) AND W. BOWMAN CUTTER (NEC)
SUBJECT: DRAFT OF TECHNOLOGY INITIATIVE



Attached is a draft of a Technology Initiative for review at a Friday, February 12th meeting of the National Economic Council Deputies Group, which will be held in Room 476, Old Executive Office Building, from 3:00 to 4:00 p.m.

This document responds to a request from the President to the Vice President to pull together a technology initiative as part of the Administration's overall economic package.

A final version of this document may be released within a week to 10 days, so your attendance at Friday's meeting would be greatly appreciated.

If you have any questions, please contact Tom Kalil (NEC) at 465-6554 or Henry Kelly (OSTP) at 456-7710.

Technology Initiative

Review Draft

February 11, 1993

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Science, Technology and American Renewal

The Strategy

Wise management of science and technology is essential for achieving sustained economic growth, for ensuring environmental quality, and for achieving many other goals critical to the quality of life in America. The federal government has an important role in creating a business environment where technical innovation can flourish and where investment is attracted to new ideas. It has a responsibility to share the burden of research costs in areas where public returns are large relative to private returns.

Technology policy must be an integral part of national economic environmental and social policy. This document outlines both a strategy for judging where federal action is appropriate and a management framework for ensuring that research and development priorities are well matched to the needs of today's economy. It also represents a commitment to manage research and development, fiscal, trade, regulatory, and other federal policies managed around three central goals:

1. Long-term economic growth that results in job creation and a cleaner environment;
2. Government that is more productive and more responsive to the needs of its citizens;
and
3. World leadership in basic science, mathematics, and engineering.

Sustained support for basic science is an essential component of any technology policy. Science is the wellspring of the technologies that can improve our lives. But support for basic science must be driven largely by curiosity about the frontiers of knowledge; the benefits yielded by crossing these frontiers can never be fully anticipated.

Measures of Success

The success of a technology policy can be measured in a variety of ways, but the final measure of success must be visible in human terms. Technical advances can lead to:

- industries and products that are much more productive in their use of raw materials and that create cleaner local, regional, and global environments.
- an efficient farm, food processing, and food retailing industry that delivers a variety of low-cost, wholesome foods;
- a construction industry that builds attractive, high-quality housing that is affordable to purchase and to maintain;
- a transportation system that gets Americans where they want to go, when they want to go there;
- an efficient, engaging education system that allows American workers to match their skills to the demands of a fast-paced economy;
- a communications infrastructure that provides inexpensive, ready access to the kinds of information needed to thrive in a complex economic system;

- a health system that prevents illness and treats disease with efficiency and compassion, ensuring that each individual is fully involved in decisions;
- an innovative, competitive, rapidly growing economy that creates safe, rewarding jobs that offer higher wages and more opportunities for creativity and self-expression;

The Tools Available

The federal government can use a variety of methods to stimulate innovations that can both lead to economic growth and contribute to other social objectives:

- R&D tax credits and other fiscal policies to create an investment environment conducive to innovation and investment;
- A trade policy that encourages open but fair trade;
- Federal support for private research and development to accelerate technologies where public gains exceed the gains that can be realized by private investors;
- Support for contract R&D centers and manufacturing extension centers that can give small businesses practical access to innovations;
- Federal support for national telecommunication infrastructure and other infrastructures critical for economic expansion;
- Federal purchasing policies designed to foster early markets for innovative products and services that contribute to national goals; and
- strong and sustained federal support for basic science to protect the wellspring of tomorrow's innovations.

Criteria for Choosing Programs

The best technology policy is one that unleashes the creative energies of innovators throughout the economy by creating a market that rewards invention and enterprise. Federal actions to accelerate technology development must meet one or more of the following criteria:

- Would federal funds accelerate the development of technologies critical for long-term economic growth that are not receiving adequate support from private firms either because the returns are too distant or because the level of funding required is too great for individual firms to bear?
- Would the projects supported by federal funds be likely to result in stable, rewarding domestic employment opportunities for large numbers of workers?
- Would the funds accelerate development of technologies that could increase productivity while reducing the burden of economic activity on the local, regional, or global environment?
- Would the funding improve the skills offered by American workers by increasing the productivity and the accessibility of education and training?

These criteria have been used to design the plan for managing the federal technology effort outlined below. They have also been used to define key areas where new directions should be taken. Several examples of new directions are listed in the box.

New Directions

1. Permanent extension of the research and experimentation tax credit
2. Investment in a national information infrastructure and design of a national communications policy that ensures rapid introduction of new communication technology;
3. Accelerated investment in advanced manufacturing technology ;
4. A major new program to restore the technological leadership and competitiveness of the US automobile industry with technology that can all but eliminate the environmental hazards of automobile use and operate from domestically produced fuels;
5. Development of technologies that can increase the productivity and accessibility of education and training for all Americans; and
6. Investment in federal buildings to reduce wasteful energy expenses and encourage the adoption of innovative, energy-efficient technology.

see Attachment A for a more detailed description

The programs described in this plan represent a conscious shift of resources from traditional mission-oriented R&D to investments intended to strengthen America's industrial competitiveness and create jobs. They also represent important initial steps toward redirecting some of the talent and resources we have applied to purely defense research to problems that have more direct value to the civilian economy.

Greater investment in applied research creates a special burden to ensure that the objectives listed earlier are met. It would be foolish to ignore the danger of funding proposals because of pressure from a special interest or because they reflect the narrow vision of a bureaucrat. The shift toward applied programs requires much closer interaction between government, industry and labor. Significant cost sharing will be required in most areas where significant public funding is made available. It is also essential that program proposals receive the widest possible review by experts from all parts of the economy. The initiative in advanced manufacturing, for example, can not be successful without direct input from the private sector as to what technical areas are most important. Accordingly, we will conduct a review of laws and regulations such as the Federal Advisory Committee Act and conflict-of-interest regulations to determine whether changes are needed to increase government-industry communication and cooperation.

Goal 1: LONG-TERM ECONOMIC GROWTH THAT RESULTS IN JOB CREATION AND A CLEANER ENVIRONMENT

Technology is the engine of economic growth. In the U.S., technological change has been responsible for as much as two-thirds of productivity growth since the Depression. Breakthroughs such as the transistor, computers, recombinant DNA and synthetic materials have created entire new industries. Federal investment in technology can both accelerate overall levels of growth and create incentives for developing technologies that serve social goals not captured in conventional markets -- creating employment opportunities with a promising future and protecting the environment. We are fortunate in that modern technology makes it possible to meet these goals simultaneously. The clear momentum of technical development is one where growth is based on increasing inputs of information and where capital investment is heavily tied to the manipulation of information. Modern production systems make much more efficient use of energy and materials and recycle rather than waste most byproducts. Technology can achieve enormous reductions in the emissions associated with operating automobiles, buildings, and factories.

National programs for ensuring that the US benefits from the opportunities inherent in emerging technologies employ four basic techniques: financing research and development partnerships, modernizing fiscal and regulatory programs, investing in training and education, and investing in critical infrastructures.

A. Research And Development Partnerships

Since World War II, the federal government has supported basic science and mission-oriented R&D -- largely defense technology. Direct support for commercial technology development has been minimal in the U.S., in contrast to Japan and other countries. Instead, the federal government has relied on its investments in defense and space to trickle down to civilian industry.

Although that trickle-down approach to commercial technology may have made sense in an earlier era, when U.S. firms dominated world markets, it is no longer adequate. The time has come for the federal government to support the technology needs of U.S. industry much more directly, to help enhance productivity and economic competitiveness.

The fundamental mechanism for carrying out this new approach is the cost-shared R&D partnership between government and industry. All federal agencies (including the nation's 726 federal laboratories) will be encouraged to partner with industry wherever possible. In this way, federal investments can be managed to benefit both government's needs and the needs of U.S. businesses.

This reorientation is particularly urgent for the Department of Defense, which accounts for 60 percent of all federal R&D. In contrast to 20-30 years ago, many defense needs today could be met by commercial technologies and products. Despite that, most DoD research dollars go to support a distinct defense technology base. DoD must help to integrate the commercial and defense technology bases if we are to achieve national security with fewer defense dollars.

- The ratio of civilian and dual use R&D to purely military R&D is significantly higher in this budget than in previous years. This is a first step toward balancing funding levels for these two categories by FY1995

- The Defense Advanced Research projects Agency (DARPA) will be renamed the Advanced Research Projects Agency (ARPA) -- as the agency was known before 1972. Recognizing that a strong national defense system depends on vigorous and innovative domestic manufacturing capabilities, the organization will focus much greater attention on dual-use technologies -- that is, technologies with both military and commercial applications.
- The objectives of all laboratories managed by the Department of Energy and the Department of Defense will be reviewed with the aim of devoting a much larger fraction of their efforts to civilian research needs. The labs will be encouraged to form Cooperative R&D Agreements (CRADAs) with industry.
- NASA and its field centers will devote a greater share of their resources to projects that support the productivity and competitiveness of US businesses. They will be encouraged to use the authority provided by the Space Act to engage in creative partnerships with industry.

A variety of programs for using federal funds to accelerate technical innovation have been employed over the years. The most successful have been in areas such as agriculture, where private R&D by a fragmented industry was seriously underfunded, and where substantial federal resources went for disseminating research and knowhow to individual farmers.

New directions for supporting manufacturing will emphasize the following themes (see Attachment A for more details):

- Provide increased funding for advanced manufacturing R&D.
- Support Agile Manufacturing.
- Create a national network of manufacturing extension centers.
- Support Regional Technology Alliances.
- Promote Manufacturing Engineering Education.
- Support Defense Conversion and Commercial/Military Integration

During the coming months all national technology development programs will be carefully evaluated to ensure that funding priorities are consistent with the needs of US businesses today and that a consistent strategy for combining public and private funds is taken. Major federal research investments are now made in the following areas.

- DoD Dual-use R&D
- Energy Research
- Agricultural and Forestry Research
- NIH and other medical research
- Research Consortia
 - CRADA/s (NIST, DoE, NIH, others)
 - SEMATECH
 - Other new joint venture initiatives (new autos)
- NIST Programs
 - Advanced Manufacturing R&D
 - Manufacturing Extension

NIST intramural research
NASA Office of Advanced Concepts and Technology

B. A World-Class Business Environment For Innovation and Private Sector Investment

Increasing investment in civilian technologies is only one element of a strategy to restore America's industrial and technological leadership, and to create high-wage, high-skill jobs. The United States must also ensure that its tax, trade, regulatory and procurement policies encourage private sector investment and innovation. In a global economy in which capital and technology is increasingly mobile, the United States must make sure that it has the best environment for private sector investment and job creation.

The Administration will undertake the following actions to improve the environment for private sector investment and job creation:

1. **Make Permanent the R&E Tax Credit:** The Administration budget would make permanent the Research and Experimentation tax credit. In the past, the effectiveness of this credit has been undermined by a series of six and nine-month temporary extensions. Since R&D projects can take up to eight to ten years, companies are reluctant to rely on a credit which is not permanent. Some studies suggest that making the R&E tax credit permanent would increase private sector investment in R&D by \$5 billion. The need for additional U.S. investment in R&D is clear. Currently, the United States invests 1.9 percent of GDP in non-defense R&D, as compared to 3.0 percent in Japan and 2.8 percent in West Germany.
2. **Create incentives for long-term investments in small businesses:** The Administration will introduce legislation to provide incentives for those who make high-risk, long-term venture and seed capital investments in startups and other small enterprises. These companies are the major source of job creation, economic growth, and technological dynamism in the U.S. economy.
3. **Create incentives for investment in equipment:** Currently, America's chief economic competitors are investing twice as much in plant and equipment (as a percentage of GDP) as the United States is. Furthermore, studies show a high correlation between investment in new equipment and productivity -- since new technologies are often embodied in capital equipment. To stimulate additional investment in equipment, the Administration will propose an incremental investment tax credit of [??] percent.
4. **Reform antitrust laws to permit joint production ventures:** The Administration will introduce legislation to extend the National Cooperative Research Act of 1984 to cover joint production ventures. Increasingly, the escalating cost of state-of-the-art manufacturing facilities will require firms to share costs and pool risks.

5. **Ensure that U.S. trade policy strengthens high technology industries:** To remain competitive, America's high-tech industries need full access to overseas markets and effective protection of intellectual property rights. The Administration is committed to multilateral and bilateral negotiations, and enforcement of existing agreements, that will accomplish these objectives. The trade policy must also be consistent with a vigorous public research and development program.
6. **Review proposals to increase patience and availability of capital:** A number of proposals have been made to increase the patience and availability of capital. For example, the National Academy of Science has proposed creating a publicly-funded, privately run Civilian Technology Corporation. The private-sector Council on Competitiveness has proposed a sweeping set of reforms to improve corporate governance and encourage long-term asset ownership. The Administration will review these and other proposals in an effort to improve the environment for long-term investments.

C. Education and Training

Jobs throughout the economy will require an increasingly sophisticated range of competencies as technology reshapes production systems. American workers can only enjoy the benefits of emerging technologies if they leave school with marketable skills and if they are able to build new skills as they are needed.

This project will support the development and introduction of computer and communications equipment and software that can increase the productivity of learning in formal school settings, a variety of business training facilities, and in homes. Improvements in computer processing power and display technologies can create synthetic views of the world that are plausible to the ordinary senses of sight and hearing. This equipment creates an unprecedented opportunity for learning complex ideas in the most powerful possible circumstances: being an apprentice to a master, being left alone to experiment with the master's tools, seeing and hearing events as they occur, and being able to ask questions as they occur rather than being forced forward when a confusing point arises. Perhaps most importantly, the system allows instruction to be tailored to the learning needs of individuals. This is particularly important for retraining adults that reenter a training environment with a great variety of learning needs and learning abilities.

The technology can also be used to increase the productivity of learning, and to make learning resources available to students even if they are located in geographically remote areas or are unable to commute to schools because of the demands of work and family responsibilities.

The Department of Defense and many major US firms have used technology successfully to reduce learning times, to increase retention of complex skills, and to test complex skills. They also have extensive experience in tying learning centers together using advanced communication systems. The Navy Training systems Center and the Army Simulation, Training and Instrumentation Command together spend about \$1 billion a year on training systems. There are over 150 defense simulation and training companies serving these needs in central Florida alone. These and other defense-related training facilities represent an important national asset.

Programs presented here are designed to encourage further expansion of this work and to accelerate development of advanced learning systems both in formal school settings, in community colleges and other training centers, and in on-the-job training.

[A section describing how technology can advance the Administration's goals in education and training will be added here when we have more information about the program. Technology increases the need for training in mathematics, science, and engineering, and communication skills. The FCCSET programs in science and math education will be described. Technology also provides important new tools for teaching all subjects. An initiative in this areas was discussed in the "new directions" section.]

D. Infrastructure Investment

The federal government has a responsibility to ensure that the nation's businesses, schools, and other institutions are supported by transportation, communication and other infrastructures needed by today's fast-paced economy. Traditional transportation systems must be maintained and upgraded and investing in the new information highways that are becoming essential for growth throughout the economy.

Information Infrastructure (see attachment A for more details)

Efficient access to information is becoming critical for all parts of the American economy. Banks, insurance companies, manufacturing concerns, and many other business operations now depend on high-speed communication links. Many more businesses can take advantage of such systems if they are reliable, easy to use, and inexpensive. Such systems would also be of enormous value to schools, hospitals, and other public organizations. Even the most remote school could be connected to state-of-the art information. Hospitals could call in experts for consultation even if the expert is far from the patient.

Accelerating the introduction of an efficient, high-speed communication system can have the same effect on US economic and social development as public investment in the railroads had in the 19th century. It would provide a critical tool around which many new business opportunities can develop.

Specific new programs include :

1. Full implementation of the high-performance Computing and Communications Program
2. Create an Information Infrastructure Technology Program
3. Provide funding for networking pilot projects
4. Promote dissemination of Federal information.
5. Reforming Telecommunications Policy.

Other key infrastructure Investments include:

- upgrading the nation's rail lines and encouraging the introduction of modern equipment that can increase rail-travel speed
- upgrading highways and mass transport systems through ISTEA
- conducting research on "smart highway"

-- supporting the development of advanced, short-haul aircraft

Goal 2: GOVERNMENT THAT IS MORE PRODUCTIVE AND MORE RESPONSIVE TO THE NEEDS OF ITS CITIZENS

The federal government must use technology to improve the efficiency of its own operations. Many private businesses have used advanced communication systems to improve the efficiency of their operations and to make their businesses more sensitive to the needs of individual customers and clients. The federal government must move actively to take advantage of these new opportunities. Similarly, the federal government is one of the nation's largest consumers of energy yet many of its buildings are far less efficient than structures owned by private firms. The taxpayer is picking up the bill for lax attention to efficiency. This also will change.

The enormous purchasing power of the federal government can be used to stimulate markets for innovative products in many areas and federal purchasing policy can establish de-facto standards. This power should be exercised in a way that is consistent with overall national technology objectives.

A. Information Technology

Information technology will be used to improve dramatically the way the Federal Government delivers service to the citizen. Government will become more cost-effective, efficient, and "user-friendly." In particular, we will use technology to improve the quality and timeliness of service, to provide new ways for the public to communicate with their government, and to make government information available to the public in a timely and equitable manner.

Fast communication makes it possible for teams to work closely on a project even if the team members are physically distant from each other. Information technology presents an opportunity to flatten existing organizational structures, form effective cross-disciplinary problem-solving groups, and expand the definition of the workplace and workforce via telecommuting. But business organizations in many sectors have found that automating existing work processes based on a tradition of processing paper does not always provide the greatest benefits from investment in automation. Efficiency gains from the new technology often can only be captured if changes are made in the structure of their organizations and the way they are managed. The administration will undertake a careful review of government management with a view to making the most efficient possible use of new information technologies.

Improved quality and timeliness of service. Information technology will eliminate errors generated in routine paper processes while reducing processing time. For example, the Internal Revenue Service (IRS)'s electronic Filing program is reducing error rates on tax returns from 16 percent to less than 3 percent, while speeding up the delivery of refunds by as much as four weeks. Agencies are moving forward to convert many other paper processes to electronic form.

Information on paper is hard to retrieve. Automation is allowing the Social Security Administration to provide beneficiaries with "one-stop" service anywhere in the country from

an 800 number. Better connections among Federal offices, in a manner that safeguards the privacy of individuals, will make it easier to get answers from the government.

New ways to communicate with the government. In the past, citizens typically had to go to a federal office during business hours to receive benefits or services. A government that uses technology to expand its hours of service and communicate with the public electronically will deliver services and benefits where the citizen needs them, not where the government provides them. We will make it possible for citizens to communicate with a Federal agency using electronic as well as conventional mail. Automated terminals may be placed in public locations such as shopping centers or post offices that could provide in-hours access to a variety of government services.

Access to government information. Government information is a public asset. Markets depend on sound and timely economic decisions. Federal geographic and climatological information allows farmers to apply fertilizer more efficiently, local governments to formulate environmental policy, and public safety officials to prepare for natural disasters. The government will promote the timely and equitable access to government information via a diverse array of sources, both public and private, including state and local governments and libraries. The development of public networks such as the Internet and NREN will contribute significantly to this diversity, enabling government information to be disseminated inexpensively to a broad range of users.

Policy and technology infrastructure. Many of the government's policies in such areas as privacy, information security, records management, information dissemination, and procurement will be updated to take into account the rapid pace of technological change. In addition, the government must apply the economic principle of maximizing return on investment when acquiring information technology, and be able to acquire commercial, off-the-shelf technology quickly and easily.

In addition, resources are needed to provide a technology infrastructure to support these service delivery improvements. The support for the IRS Tax System Modernization in the stimulus package, along with requests elsewhere for resources to support information technology, are examples of the government investing in technology to put people first.

B. Federal Energy

The federal government is wasting the taxpayers money by operating inefficient buildings. \$3 billion could be invested in energy retrofits in federal buildings with an average payback of about 1.8 years. California, Texas, Iowa, and several other states have large programs which have profitably invested in state buildings during the past several years. The programs have both increased the efficiency of state structures and stimulated the local construction industry.

HUD spends approximately \$4 billion a year subsidizing the energy bills of about 9 million low income households. These buildings are also extremely inefficient. At least \$3 billion could be invested in energy retrofits with a payback less than five years.

We are introducing a multi-year program designed to capture the economic benefits of energy retrofits, create new jobs in the construction industry, and to foster innovation in efficient building components and in the construction industry itself (see attachment A).

GOAL 3: WORLD LEADERSHIP IN BASIC SCIENCE, MATHEMATICS, AND ENGINEERING.

The federal government has invested heavily in basic research since the Second World War and this support has paid enormous dividends. Scientific advances have been the foundation of the technical innovations whose benefits are seen in economic growth, improved health care, and many other areas. Our research universities are the envy of the world; our national laboratories and the research facilities they house attract scientists and engineers from around the globe. In almost every field, United States researchers lead their foreign colleagues in scientific citations, in Nobel Prizes, and most other measures of scientific excellence.

This administration will both ensure that support for basic science remains strong, and ensure that stable funding is provided for projects that require continuity. We will not allow unexpected budget shortfalls to destroy critical research teams that have taken years to assemble.

But stable funding requires setting clear priorities. In recent years, rather than canceling less important projects when research budgets have been tight, Federal agencies have tended to spread the pain, resulting in disruptive cuts and associated schedule delays in hundreds of programs. We will take a comprehensive look at Federal funding for basic research, prioritize individual programs.

University Research. The National Science Foundation and the National Institutes of Health provide the vast majority of Federal funding for university research. Since universities play dual roles of research and teaching, the long-term scientific and technological vitality of the U.S. depends upon adequate and sustained funding for university research grant programs at NSF, NIH, and other research agencies.

National Laboratories. In fields like high-energy physics, nuclear physics, materials sciences, aeronautics, the national laboratories provide key facilities used by researchers in academia, Federal labs, and industry. In addition, in many fields, researchers at Federal labs are world leaders. We will ensure that Federal laboratories continue their key role in basic research and will encourage more joint research between the laboratories and industry and universities.

Space Science and Exploration. Only the Federal government has the resources needed to undertake the missions needed to explore our solar system and the universe beyond. The Clinton Administration will ensure United States leadership in astronomy and space and planetary sciences .

Environmental Research. In FY93, the Federal government will spend over \$1.3 billion on research to better understand global warming, ozone depletion, and other phenomena important to local, regional, and global environments. This research is essential if we are to fully assess the damage mankind is doing to our planet and take effective action to

address it. Vital research on local and regional environments will also be strongly supported at EPA, NOAA, USGS and other agencies.

Attachment A

New Directions

- A. Permanent extension of the research and experimentation tax credit
- B. Investment in a national information infrastructure and design of a national communications policy that ensures rapid introduction of new communication technology
- C. Accelerated investment in advanced manufacturing technology building on successful programs in NIST
- D. A major new program to restore the technological leadership and competitiveness of the US automobile industry with technology that can all but eliminate the environmental hazards of automobile use and operate from domestically produced fuels
- E. Development of technologies that can increase the productivity and accessibility of education and training for all Americans
- F. Investing in federal buildings to reduce wasteful energy expenses and encourage the adoption of innovative, energy-efficient technology.

New Directions

A. MAKE THE R&E TAX CREDIT PERMANENT

OBJECTIVES:

The success of US businesses depends on their ability to compete both in the development of innovative products and production processes and their ability to bring new products to the market quickly and efficiently. Heavy investment in defense research has meant that the US has fallen behind many of its foreign competitors in civilian research. Currently the US invests 1.9 percent of GDP in non-defense R&D compared to 3.0% in Japan and 2.8% in Germany.

ACTION

Private investment in civilian research and innovation based on research will be promoted by making the Research and Experimentation tax credit permanent. The effectiveness of this credit has been undermined by six and nine-month temporary extensions. Since R&D projects can take eight to ten years to complete, investors have been reluctant to rely on a credit whose future is so uncertain. Recent studies suggest that private sector investment in R&D could increase by as much as \$5 billion if the R&E credit is made permanent.

B. INVESTING IN AN INFORMATION INFRASTRUCTURE

Objectives

Efficient access to information is becoming critical for all parts of the American economy. Banks, insurance companies, manufacturing concerns, and many other business operations now depend on high-speed communication links. Many more businesses can take advantage of such systems if they are reliable, easy to use, and inexpensive. Such systems would also be of enormous value to schools, hospitals, and other public organizations. Even the most remote school could be connected to state-of-the art information. Hospitals could call in experts for consultation even if the expert is far from the patient.

Accelerating the introduction of an efficient, high-speed communication and associated computer systems can have the same effect on US economic and social development as public investment in the railroads had in the 19th century. It would provide a critical tool around which many new business opportunities can develop.

Actions

- A. **Full implementation of the high-performance Computing and Communications Program** established by the High-Performance Computing Act of 1991. Research and development funded by this program is creating (1) more powerful super computers, (2) faster computer networks, and (3) more sophisticated software. In addition, it is providing scientists and engineers with the tools and training they need to solve "Grand Challenges", research problems--like modeling global warming--that cannot be solved without the most powerful computers.
- B. **Create an Information Infrastructure Technology Program** to develop the hardware and software needed to fully apply advanced computing and networking technology in manufacturing, in health care, in life-long learning, and in libraries. This multi-agency program will involve the National Science Foundation, NASA, the National Institute of Health, the National Institute of Standards and Technology, and other agencies.
- C. **Provide funding for networking pilot projects** through the National Telecommunications and Information Administration (NTIA) of the Department of Commerce. NTIA's Public Telecommunications Facilities Program will provide matching grants to states, school districts, libraries, and other non-profit entities so that they can purchase the computers and networking connections needed for distance learning and for hooking into computer networks like the Internet. These pilot projects will demonstrate the benefits of networking to the educational and library communities.
- D. **Promote dissemination of Federal information.** Every year, the Federal government spends billions of dollars collecting and processing information (e.g. economic data, environmental data, and technical information). Unfortunately, while much of this information is very valuable, many potential users either do not know that it exists or do not know how to access it. We are committed to using new computer and

networking technology to make this information more available to the taxpayers who paid for it. This will require upgrading computer systems at dozens of Federal agencies as well as at the Government Printing Office and the National Technical Information Service, which have key roles in disseminating government information. In addition, it will develop consistent Federal information policies designed to ensure that Federal information is made available at a fair price to as many users as possible.

- E. **Create a Task Force on Information Infrastructure.** Government telecommunication and information policy has not kept pace with new developments in telecommunications and computer technology. As a result, government regulations have tended to inhibit competition and delay deployment of new technology. For instance, without a consistent, stable regulatory environment, the private sector will be hesitant to invest the hundreds of billions of dollars needed to build the high-speed national telecommunications network that this country needs to compete successfully in the 21st Century. To address this problem and others, we will create a high-level inter-agency task force which will work with Congress and the private sector to find consensus on and implement policy changes needed to accelerate deployment of a national information infrastructure.

C. ADVANCED MANUFACTURING TECHNOLOGY

Objectives

Manufacturing remains the foundation of the American economy. Although the United States was the unchallenged world leader in manufacturing for many years, our performance has slipped badly in recent decades. American firms still excel at making **breakthroughs**, such as IBM's discovery of high-temperature superconductivity, but foreign firms are often better at **follow through**: namely, turning technology into new products and processes both quickly and cheaply.

American industry and government both under invest in manufacturing. In contrast to their foreign competitors, U.S. firms neglect process-related R&D within their overall R&D portfolio. And the federal government allocated only two percent of its \$70 billion R&D budget to manufacturing R&D in FY92.

We have also neglected the dissemination of **existing** technology and know-how. New manufacturing technologies and approaches are available that can lead to dramatic improvements in product quality, cost, and time-to-market. Although a few U.S. firms have begun to adopt these technologies and approaches, most firms still lag. The problem is most acute among the 360,000 small and medium-sized manufacturers, who employ 8 million workers.

Actions

- A. **Provide increased funding for advanced manufacturing R&D.** Additional funds will be directed primarily to process-related R&D in areas with significant commercial application. Industry and government experts agree on many of these areas, including intelligent control and sensor technologies, rapid prototyping, and environmentally-conscious manufacturing. Industry consortia (including universities and government laboratories, where appropriate) will be the preferred performers of such R&D, to assure its commercial relevance. SEMATECH, an industry consortium to develop semiconductor manufacturing technology, will receive continued matching funds from the Department of Defense.
- B. **Support Agile Manufacturing.** The new Agile Manufacturing Program (also known as "Enterprise Integration") is designed to capitalize on the emerging shift from mass production to flexible or "agile" manufacturing. Agile manufacturing allows independently-owned companies to form instantaneous partnerships with firms that have complementary capabilities in order to exploit market opportunities. These partnerships -- called "virtual enterprises" or "virtual corporations" -- will leverage our nation's strengths in information technology. This program supports both the development and dissemination of such technology for enterprise integration.
- C. **Create a national network of manufacturing extension centers.** Many small and medium-sized manufacturing firms in the U.S. have not taken advantage of new technologies and best practices, either because they are unaware of them or because

they can't afford them. Existing state and federal manufacturing extension centers provide assistance to a small number of firms, but service must be greatly expanded to give all firms access to the technologies, testing facilities, and training programs they need. Federal funds (to be matched by state and local governments) will go to support and build on existing state, local, and university programs, with the goal of creating a nation-wide network of 170 extension centers.

- D. **Seed Regional Technology Alliances.** Manufacturing industries tend to cluster geographically, and the strength of these technology clusters is fast becoming a key to international competitiveness. This new program is designed to encourage firms and research institutions in a particular region to exchange information, share and develop technology, and develop new products and markets. Federal funds (to be matched by alliance members) will go to support applied R&D and a range of technology services oriented particularly to smaller firms (test facilities for new products and prototypes, design and management assistance, start-up incubators, education and training, export promotion and market monitoring, and quality testing and standards certification).
- E. **Promote Manufacturing Engineering Education.** Traditional engineering education, with its focus on product design and analysis, has seriously neglected the management and operation of manufacturing activities. This program provides matching funds for graduate or undergraduate programs in manufacturing engineering.
- F. **Support Defense Conversion and Commercial/Military Integration.** Several of the above programs will give particular attention to the needs of defense suppliers and defense-dependent regions, to speed their transition to commercial (and dual-use) manufacture. In addition, an increased share of DoD's R&D budget will go for technology, including manufacturing technology, with direct commercial application. Only by integrating our commercial and military sectors, and getting away from defense-unique technology, can we achieve effective national security in the 21st century with far fewer defense dollars.

D. A NEW AUTOMOBILE

Objectives

The automobile plays a central role in US manufacturing capabilities and the lifestyles of most Americans. The industry is deeply tied to the rest of the economy. To remain competitive in the 21st century, however, the U.S. industry will have to explore new technologies that meet increasingly stringent environmental regulations both here and abroad.

New fuels and new propulsion systems developed during the last decade could, however, replace the combination of gasoline and the internal combustion engine that have served so well for generations. Given adequate investment in research and development, and adequate incentives for US producers to invest in these technologies, a new generation of vehicles could be on the market within a decade that would (i) be safe and perform as well, if not better than existing automobiles, (ii) cost no more to drive than today's automobiles, (iii) consume only domestic fuels (natural gas and renewable fuels), and (iv) produce little or no pollution.

While the basic technology needed to achieve this goal is available, converting it to a practical vehicle represents a heroic challenge. If US producers lead the world in introducing such a vehicle, the domestic industry would be able to meet expanding domestic and international markets with a machine that significantly reduces pollution and that can operate from domestic fuel sources.

Actions

- A. A "clean car" task force will be established linking research efforts of relevant agencies. This task force will immediately establish an advisory group consisting of technology leaders in the principle US automobile manufacturers, their principal suppliers, and US fuel suppliers. It will oversee the establishment of cooperative research ventures in (i) fuel-cells and the control and other systems required for practical fuel-cell hybrid vehicle designs, (ii) advanced batteries, ultra-capacitors, advanced gas storage & delivery systems, and (iii) production of methanol and hydrogen from natural gas, municipal waste and other waste products, energy crops, and the electrolysis of water
- B. The task force will establish a special advisory group consisting of key state officials and representatives of the participating Departments to (i) design a program for using the authority already present in the Clean Air Act revision of 1991 and the National Energy Act of 1992 to encourage introduction of prototype vehicles consistent with the objectives of this program, (ii) coordinate state regulatory programs designed to require low or zero emission vehicles, and (iii) propose federal regulations needed to supplement state efforts. It will also design programs for managing federal vehicle procurement.
- C. Working with its private sector and state advisory groups, the task force will prepare a list of development requirements and conduct a systematic search for capabilities in

national laboratories and defense facilities. Capabilities identified will be integrated rapidly into the research teams.

E. TECHNOLOGY FOR EDUCATION AND TRAINING

Objectives

This project will support the development and introduction of computer and communications equipment and software that can increase the productivity of learning in formal school settings, a variety of business training facilities, and in homes.

Actions

- A. An education-technology task force will be established from appropriate federal agencies to (i) establish software and communication standards for education and training, (ii) coordinate the development of critical software elements, (iii) support innovative software packages and curriculum design, and (iv) collect information resources in a standardized format and make them available to schools and teaching centers throughout the nation through both conventional and advanced communication networks.
- B. The National Research and Education Network will be expanded to connect university campus, community colleges, and high schools to a high-speed communications network. Equipment allowing local networks in these centers access to the network would also be provided.
- C. Proposals will be encouraged for a industry consortia or regional alliance designed to new teaching systems (hardware and software) and work with training organizations throughout the nation to develop, install, and maintain state-of-the art systems. Firms now providing similar services to defense training organizations are likely to participate.

F. ENERGY EFFICIENCY INVESTMENTS IN FEDERAL BUILDINGS

Objectives

This project would increase the efficiency of government by making cost-effective investments in buildings where the energy bills are paid by the taxpayers. The project would create a significant number of jobs in urban areas, create new businesses and job skills, stimulate markets for innovative energy efficiency equipment, and reduce the impact of the federal government on the environment.

Actions

In the case of federal building retrofits, funding will be provided to the Department of Energy which will be responsible for managing the program.

In the case of funds for federally subsidized housing, funds will be provided to HUD which will manage the fund with DoE providing technical guidance.

A. An advisory group will be created consisting of key officials from states with successful state building retrofit programs, representative building facility managers from federal buildings, and utility managers of successful DSM programs. This group will ensure that the federal program is designed with the advantage of their experience and provide periodic evaluation and guidance.

B. Following the experience in the Texas program, the managers of the funds will provide funding for preliminary "walk through" audits. Based on these preliminary studies, funding will be provided for more extensive audits. Proposals made in these audits will be funded using the following criteria:

- technical merit of the proposal
- extent to which all cost-effective savings have been captured (ie. justified on a 10% real discount rate) have been captured
- cost-sharing by the agency, utility, or other source of financing
- in the case of federally subsidized housing, state and other non-program cost-sharing will be considered (including use of LIHEAP and other funds). At least a 1:1 match should be expected.
- the extent to which contractors invest in hiring and training new workers

In each proposal, at least 6% of the program cost will be set aside for monitoring and evaluation using regional centers that follow an agreed protocol established by a lead center

Up to 10% of the program funds should be spent to create early markets for innovative technologies which represent a significant advance over existing systems and have the potential for large future applications.

Withdrawal/Redaction Marker

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	K.C. Fung to Laura Tyson; re: Meeting with Sir Leon Brittan (4 pages)	02/11/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
Council of Economic Advisers
Laura D'Andrea Tyson
OA/Box Number: 5061

FOLDER TITLE:

Trade Policy [1]

2017-0364-F
jp3831

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

February 11, 1993

TO : LAURA TYSON
FROM : SHERIF LOTFI ✓
SUBJECT : **Background on the E.C.**

Sir Leon Brittan is the EC commissioner for International and Commercial Affairs, making him the EC's primary trade negotiator. Prior to assuming this post on January 6, 1993, Sir Leon, was the EC commissioner for Competition and Financial Services between 1989 and 1992. His biography is attached.

- In his new portfolio Sir Leon is responsible for bilateral trade negotiations, and trade and cooperative agreements with Eastern Europe and the states of the former Soviet Union.
- In his previous portfolio, Sir Leon took a strong anti-monopoly position.

The reorganization of the EC commission in December 1992 was designed in part to make foreign affairs more prominent. The external relations portfolio was split into three positions:

- The political aspects, including EC enlargement, were assigned to new Dutch Commissioner Hans van der Broek;
- the economic side of EC external relations were given to Sir Leon; and
- Spanish Commissioner Manuel Marin got the development portfolio.

This has left room for turf battles to sort out the exact responsibilities of the new portfolios.

As you know, some of the most visible and contentious trade issues that are outstanding between the EC and the United States include the EC utilities directive, the anti-dumping duties we will impose on foreign steel makers, and GATT. He will certainly seek your views on these issues, especially GATT.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. report	re: U.S. Government Report (2 pages)	01/13/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
Council of Economic Advisers
Laura D'Andrea Tyson
OA/Box Number: 5061

FOLDER TITLE:

Trade Policy [1]

2017-0364-F
jp3831

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. memo	Michael Kantor to POTUS; re: Meeting with EC Commissioner Brittan (2 pages)	02/12/1993	P1/b(1)

COLLECTION:

Clinton Presidential Records
Council of Economic Advisers
Laura D'Andrea Tyson
OA/Box Number: 5061

FOLDER TITLE:

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MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

February 10, 1993

TO: LAURA TYSON
ALAN BLINDER

FROM: K.C. FUNG *KCF*

SUBJECT: **Special 301 Review**

The interagency process for the annual special 301 review has just started. This memo provides you with some background and relevant information on this issue.

Annually, within 30 days after the National Trade Estimate Report is issued (March 31), the USTR must: (1) identify those foreign countries that (a) deny adequate and effective protection of intellectual property rights, or (b) deny fair and equitable market access to U.S. persons that rely on intellectual property protection; and (2) identify which of those countries are priority foreign countries because that government's acts, policies and practices are the most onerous and egregious and have the greatest adverse impact on relevant U.S. products; and it has not entered into good faith negotiations or is not making significant progress in bilateral or multilateral negotiations to provide adequate and effective intellectual property protection.

If a country is identified as a priority foreign country, the USTR must, within 30 days of that decision, initiate a section 301 investigation. The USTR may decide not to initiate an investigation if such action would be detrimental to U.S. economic interests. At or before the end of the investigation period, USTR must determine whether the practices are actionable under section 301, i.e. (1) are they a violation of a trade agreement, (2) are they unjustifiable, or (3) are they unreasonable and constitute a burden on U.S. commerce. If a practice is actionable, USTR must decide whether trade action in response to the unfair act is appropriate.

In the past, a list of countries will first be considered in the TPSC subcommittee. They will then be circulated to the full TPSC. If any agency has problems with the designation of any country, the issue will be kicked up to the TPRG.

There are three types of characterization of countries: priority foreign country (PFC), priority watch list (PWL) and watch list (WL). Only a priority foreign country identification will lead to an investigation. CEA in the past has focused only on these countries. While it is still too early to decide, some of the potential PFCs seem to be Taiwan, Thailand, India, Korea, Philippines, Poland, Turkey, Brazil, Columbia, Hungary and Venezuela.

Trade Promotion Coordinating Committee 1994 Annual Report

National Export Strategy

*This document is for internal use only. Final releases
from all of the companies mentioned in this report have
not yet been received (9/2/94)*

Draft, September 2, 1994

TPCC 1994 Annual Report: National Export Strategy

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Letter from President Clinton

Dear Mr. President and Mr. Speaker:

<Paragraph placeholder>

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Letter from Secretary Brown

Dear Mr. President and Mr. Speaker:

It is my pleasure to transmit the Second Annual Report on our National Export Strategy. Exports have become one of our most important job-creating programs, putting trade at the center of our priorities at home and abroad. As a result, since the last Report, and under the leadership of President Clinton and Vice President Gore, my colleagues and I in the Trade Promotion Coordinating Committee have relentlessly pursued our efforts to expand the U.S. presence in world markets.

It has been a busy and successful year.

The NAFTA was passed, leading to new markets to our North and our South. Six-month figures as of June 30, 1994, indicate U.S. exports to Mexico are up almost 17 percent and those to Canada are up nine percent.

At President Clinton's invitation, the 14 leaders of the Asia-Pacific region came to Seattle last fall to begin a new era of trade cooperation under the auspices of the APEC. The Asia Pacific region includes the fastest growing regions of the globe and is demanding large infra-structure and power projects.

Under Ambassador Kantor's direction, the United States successfully concluded the global trade negotiations known as the Uruguay Round, the most far-reaching trade-liberalizing agreement in history. This agreement will provide, over the next five years, a tax reduction (through tariff cuts) of \$11 billion and an estimated job increase of about 500,000.

Trade and investment moved to the very top of our agenda with the former Soviet Union and is crucial to prospects for peace in the Middle East and stability in South Africa.

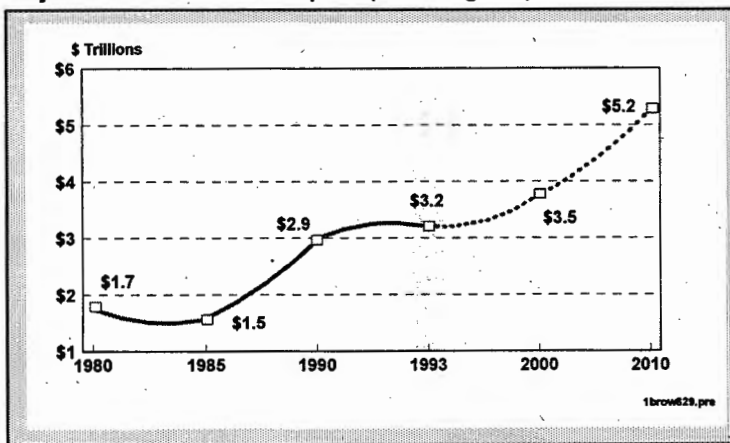
Our trade relations with China—the largest potential new market in the world—were regularized and placed on footing equivalent to those of other major trading partners. There remain some difficult issues, of course—such as the need to conclude genuine market opening agreements with Japan—but we will continue to press ahead on behalf of U.S. commercial interests and job creation in the United States.

These agreements are not an end in themselves. They simply provide our firms the opportunity to compete with others for foreign markets and the American jobs that follow. As a government, we will continue to support and advocate for American business.

The competition is fierce. Japanese companies are moving aggressively

into East Asia, the world's most dynamic and fastest growing region. Germany, France, and the United Kingdom are mounting renewed export offensives. Countries from Brazil to South Korea and Taiwan are entering the world market as never before. However, Americans have never shied away from competition. American firms have the products, the technology, the quality, and the on-time delivery to compete. We need to make sure they have the opportunity to do so.

Projected Growth in World Imports (Excluding U.S.)



I see the future holding extraordinary opportunities for American firms and workers. By the year 2010, world imports of our trading partners will exceed \$5 trillion -- an increase, in real terms, of more than \$2 trillion over today's level. Some 4 billion new consumers will require the kinds of products the United States can supply. As I indicated in our report on America's competitive standing in the world economy issued earlier this month, many American firms, having made dramatic changes in their

organization, level of quality, and price structure, are competing more effectively than ever. They will profit from an economic climate at home characterized by steady growth, low inflation, and increasing investment. They will have the benefit of far-reaching policies established by the Administration to reduce our deficits, increase our investments in technology, and build a work force which will be ready for the competitive challenges of the 21st century.

The National Export Strategy is a critical component of this Administration's competitiveness agenda. In the TPCC Report of last September, we detailed over 60 action recommendations which, if taken, would constitute our nation's first comprehensive export strategy. The Report was deliberately called, "*Toward A National Export Strategy*" (italics added.) It is my pleasure to say that we have made considerable progress on virtually all of the recommendations. We can now say that we have a strategy and that it is in full force. This current Report, therefore, both summarizes what we have accomplished and points to important new strategic directions for the future.

I am particularly proud of our advocacy of U.S. companies abroad, especially in their competition for foreign governmental procurement. We pledged at the outset of this Administration to give our companies the same level of support that our competitor nations have traditionally given

Letter from Secretary Brown

**"Pull quote Pull quote Pull
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their companies. And we have. This Administration's efforts have already assisted the execution of more than \$25 billion of contracts by U.S. companies, including: a \$4 billion Saudia Arabia telecommunications procurement; a \$2 billion contract to build an Indonesian power plant; and contracts in the Chinese energy sector worth several billion dollars.

We have made enormous progress in several other areas, as well. The system of export licensing which had been inhibiting U.S. firms from selling abroad has been streamlined—outmoded controls have been eliminated. We have been extremely aggressive in providing loans and financial guarantees to U.S. exporters. Our network of offices around the United States devoted to trade promotion has been reorganized and expanded. Our links to state and local export promotion efforts have been more fully developed. Our partnership with the private sector has deepened. We have made a start at creating a unified federal budget for trade promotion.

Among our most important achievements is the expansion of export consciousness throughout the government and the teamwork within the 19 agencies of the Trade Promotion Coordinating Committee. In the past, many Administrations have considered exporting to be a sideshow to other aspects of trade policy; today it is at the center. In the past, federal export promotion policies were compared to a tangled ball of yarn, with overlap and duplication; this, too, has radically changed.

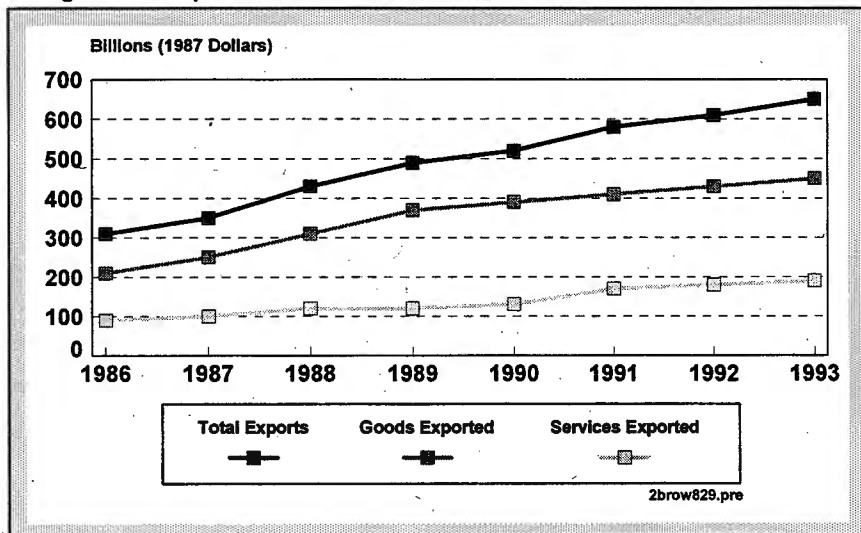
In this Report, moreover, we are also presenting some new directions for our National Export Strategy. Regarding country strategies for example, we propose focusing on Big Emerging Markets, 10 countries which could account for very dramatic increases in American sales over the next several years. In terms of industries, we are suggesting an intensive drive to promote the service sectors of our economy—from construction to accounting—where we are extremely competitive, as demonstrated by our growing trade surplus in these areas. Third, we will be expanding our programs in such areas as project finance and untied aid.

At the core of our interagency efforts and accomplishments have been the special relationship the Department of Commerce and I have built with Ken Brody, Chairman of the Export-Import Bank; Ruth Harkin, President of the Overseas Private Investment Corporation; Erskine Bowles, Administrator of the Small Business Administration; and Joe Grandmaison, Director of the Trade and Development Agency. We have also received extensive support from the National Security Council, the National Economic Council, and a large number of cabinet agencies, including the Departments of State, Treasury, Energy, Defense and Agriculture. I would also like to express appreciation to members and

staff of the Senate Banking Committee and the House Foreign Affairs Committee for their advice and support throughout the year.

Last year I went to great lengths to describe the importance of exports to the American economy and to job creation. The message is much better understood as every day goes by. Between 1986 and 1993, for example,

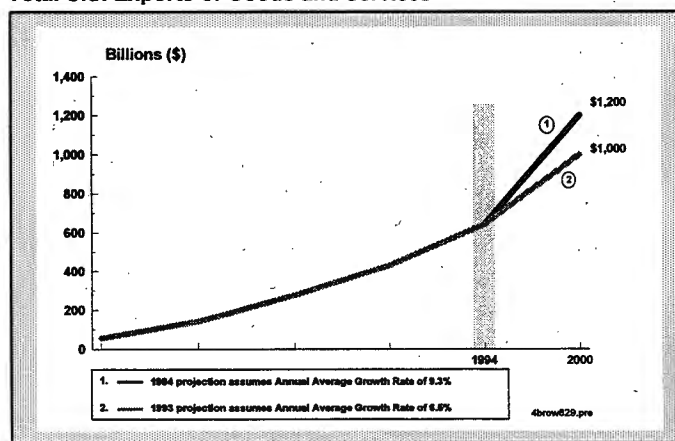
Change in U.S. Exports of Goods and Services: 1986-93



nearly 40 percent of the growth of the nation's Gross Domestic Product resulted from U.S. exports of goods and services, and the number of jobs associated with exports rose from 6.7 million to over 11 million, with export jobs paying 13 percent more than the average wage. All this understates how important exports have become, because it does not take account of the many suppliers which are part of the ripple effect when a U.S. firm gets an export order.

During the past 12 months, moreover, U.S. sales abroad have continued to grow—from \$629 billion to approximately \$659 billion, despite recessions in our traditional markets in Europe and Japan. But, with NAFTA in place, exports to Canada and Mexico boomed, as they did to East Asia and to Latin America. Moreover, with economic growth expanding in the advanced industrialized economies, we can look forward to a stronger export performance for 1995.

Total U.S. Exports of Goods and Services



Last September I stated a goal. I said that we were aiming to increase our exports of goods and services from

more than \$650 billion in 1993 to over \$1 trillion by the year 2000, supporting over 6 million new jobs. We are well on track. In fact, the increasing competitiveness of American firms and the partnership that has been formed between government and business to expand exports gives me confidence that we will exceed our original targets if we continue the intensive efforts we began this year—as we must.

As always, I solicit your thoughts and suggestions as to how we can do more, and what we can do better, to win foreign markets and create more better paying jobs for the American people.

Executive Summary

In view of the length of this Report, we would like to include a 5-10 page Executive Summary. It will highlight the major themes and accomplishments set forth in this Report. A draft of this summary will be forthcoming.

Introduction

This report is divided into three sections. The first, "Implementing the 65 Recommendations of the 1993 Report" divides each of the 65 recommendations into major categories which reflect the key themes that are at the heart of our export promotion efforts. These include supporting American bidders in global competitions and improving trade finance. This section also describes specific actions we have taken to remove government-imposed obstacles to exporting; to help small- and medium-sized businesses, which are the key to future growth; and to increase U.S. exports of environmental technology and services. A detailed review of our efforts on each of the 65 recommendations is included in an appendix to this Report.

The second section of this Report, "Focusing on New Opportunities," discusses several areas where we have undertaken major new export efforts since last September. On a geographic basis, we identify four categories for more attention: 1) the Big Emerging Markets; 2) the regions of Latin America and Asia-Pacific; 3) the traditional markets of Japan, Canada, and Western Europe; and 4) economies in transition, which include Russia and the NIS, Eastern Europe and the Middle East. We also describe our plan for an ambitious program of sectoral trade promotion in the services area as well as new trade finance initiatives in untied aid and project finance.

The third section of this report, "Establishing a Unified Federal Budget for Trade Promotion," presents a united trade promotion budget that details exactly how federal resources are being allotted on trade promotion today; establishes a framework for improving this resource spending; and suggests areas of increased emphasis.

Implementing the 65 Recommendations of the 1993 Report

In September 1993, we released a report containing 65 specific recommendations to improve export promotion programs. One year later, we can report that we have made substantial progress toward implementing nearly all 65. This section highlights the major initiatives undertaken as part of this process. It is divided into five parts:

Supporting U.S. Bidders in Global Competitions — describes the Administration's advocacy efforts to support American companies' efforts to win major procurement contracts overseas.

Improving Trade Finance — discusses steps we have taken to improve access to trade finance, combat trade-distorting financing practices of our foreign competitors, and improve coordination among trade finance agencies.

Removing Obstacles to Exporting — reviews the actions we have taken to eliminate or reduce impediments in three areas: export controls, product standards, and anti-bribery rules.

Helping Small and Medium-sized Business — identifies the programs launched to provide export assistance to smaller firms — an under-represented group in the American exporting community.

Promoting U.S. Exports of Environmental Technology and Services — describes the Administration's efforts to help U.S. companies to compete in the global environmental technologies market, which is expected to exceed \$400 billion by the end of the decade.

An Appendix at the end of the report details the implementation status for each of the 65 recommendations.

Implementing the 65 Recommendations of the 1993 Report Supporting U.S. Bidders in Global Competitions

"The U.S. Trade Promotion Coordinating Committee is helping Westinghouse in many of the key developing markets of the world through its broad spectrum of trade and financing assistance. I have participated in Presidential Trade Development Missions, and they have yielded literally hundreds of millions of dollars of business."

Michael Jordan, Chief
Executive Officer,
Westinghouse Electric
Corporation

"Today we are in a global marketplace with international competition keener than ever before. The United States Government, in its strong advocacy and support of U.S. companies competing abroad and its promotion of international trade, is greatly benefiting the U.S. economy as well as the global economy."

Richard J. Swift, President
and Chief Executive
Officer, Foster Wheeler
Corporation

The competition for major procurements by foreign countries is fierce. Our major trading partners—from the Japanese to the Germans to the French, and scores of other countries—are becoming increasingly aggressive in helping their firms to expand exports. They are particularly effective in using their high level officials as advocates for firms seeking business contracts from developing nations. Until this past year, the United States was the exception to this rule. American business had been losing billions of dollars worth of sales annually, simply because U.S. Government advocacy efforts were not as effective as those of foreign governments.

As the competition changes, so must our involvement. It is important that the U.S. Government assist the private sector where it can, so American businesses can reap the many benefits of emerging commercial opportunities. The Clinton Administration recognizes the crucial role the government can play to ensure a level playing field for American bidders in global competitions.

The Administration's National Export Strategy set out to change past trends. With a strong interest in having our firms compete and win our fair share of these contracts, we launched a comprehensive advocacy program to support U.S. bidders in global competitions.

The results have been dramatic. American firms won over 40 major contracts in the past year where the Administration has lent its support. These 40 contracts have amounted to over \$13 billion in U.S. exports. This substantial increase in exports has created or retained over 200,000 jobs in the United States.

In every one of these cases, it is our companies themselves that are winning deals with their top quality products and services and their intense efforts, which sometimes span many years and cost millions of dollars. However, government, when its assistance is desired, can play an important role in helping American firms compete effectively.

Our advocacy program coordinates resources from across the U.S. Government to ensure that American firms receive the full support of their government. The program gives a special focus to those projects overseas that require not only U.S. Government representations by Ambassadors or visiting officials, but something more—a full court press involving everything from finance to the direct involvement of the President.

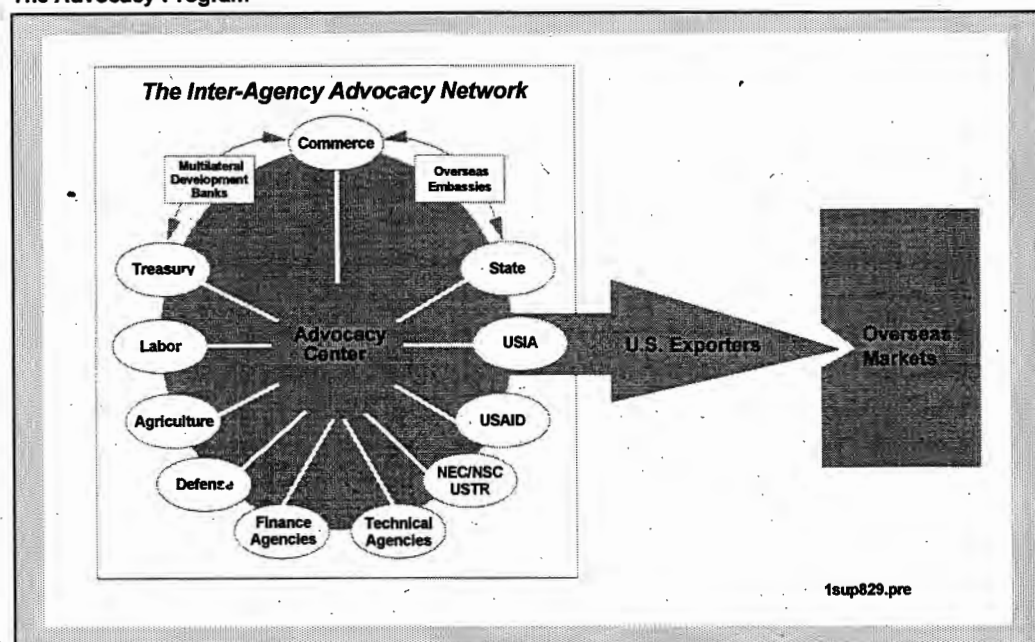
As indicated in last year's Report, we established the Advocacy Coordinating Network in November 1993. This network focuses the resources of the U.S. Government in support of U.S. bidders competing for major overseas contracts. Seventeen agencies participate in this effort.

These include the Departments of State and Commerce, with strong participation from the Export-Import Bank (Ex-Im Bank), the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA), and regular involvement by many more. This group meets bimonthly to develop and coordinate strategies for U.S. companies seeking advocacy assistance. In addition to senior-level endorsements, the Advocacy Network works with companies to provide commercial, technical, and financial support for their efforts to win deals abroad. Another important component of the advocacy program is the active monitoring of the project pipelines of the multilateral development banks—like the World Bank—to assist American companies.

A new Advocacy Center, established at the Department of Commerce in November 1993, is the hub of the Advocacy Network. The Center works closely with U.S. bidders who request assistance in quickly accessing U.S. Government resources. It uses a computer database to systematically track more than 160 pending advocacy projects where U.S. Government assistance may be necessary. When assistance on a particular project is needed, interagency teams are quickly mobilized to develop project-specific strategies.

A key component of successful advocacy is the active, personal involvement of the President, the Cabinet, and other agency heads. Top Clinton Administration officials have demonstrated an unprecedented willingness to lend their support to American exporters competing for major overseas contracts. Such support has extended beyond letters and

The Advocacy Program



phone calls to include face-to-face meetings with foreign decision-makers both here and abroad. Senior officials have traveled throughout the world to support American exporters. Secretary of Commerce Ronald Brown, Secretary of State Warren Christopher, Secretary of the Treasury Lloyd Bentsen, Secretary of Energy Hazel O'Leary, Secretary of Agriculture Mike Espy, Ex-Im Bank Chairman Ken Brody, OPIC President Ruth Harkin, and TDA Director Joe Grandmaison have been exceptionally active. In the past year alone, Secretary Brown has pressed for contracts for U.S. firms in 10 countries.

ADVOCACY YIELDS RESULTS

In April 1994, CH2M Hill signed a \$1.1 million contract for a Coastline Development Study in Taiwan. "U.S. Government intervention was a significant contribution toward our success in getting the contract to design and manage Taiwan's coastal development." — Howard Schirmer, Jr., P.E., President of CH2M Hill.

The U.S. geothermal companies, California Energy Company, Inc., and Ormat Inc., recently completed a financing package with the assistance of Ex-Im Bank and OPIC to build and operate a geothermal energy power plant in the Upper Mahiao region of the Philippines. The project, valued at an estimated \$225 million, will produce 120 megawatts of electricity and is expected to be in service by July 1996. The CEO of California Energy, David Sokol, had high praise for the TPCC agencies. "This project is a true example of public agencies assisting and supporting companies overseas to increase U.S. exports... This has been a 'win-win' project for both countries and their people. The Philippines receives reliable, clean electricity, and the United States receives jobs."

In Malaysia, Hughes Space & Communications Company signed a multimillion dollar contract for the East Asia Satellite (MEASAT) last May. This will result in continued employment for 300 to 400 employees at Hughes' facilities in El Segundo, California for the next two years. "I have to admire the enthusiastic response and efficient manner in which the Trade and Development Agency had, in conjunction with other members of the TPCC, assisted us in a timely manner at a critical point of our bid," said William D. Merritt, Hughes Corporate Vice President.

In May 1994, AT&T, with strong support from President Clinton, Secretary Christopher and Secretary Brown, was awarded a \$4 billion contract to modernize Saudi Arabia's telecommunications system. This award, the largest telecommunications equipment contract ever awarded outside the United States, involved intense competition from foreign firms including, Siemens AG (Germany), Alcatel Alsthom SA (France), Northern Telecom Ltd. (Canada), and a joint offer by Ericsson (Sweden) and NEC Corp. (Japan). Our coordinated United States Government advocacy effort played an important role in AT&T's contract win. This seven-year project involves building a fiber optic network for advanced phone service to 1.5 million subscribers and the construction of a digital wireless network capable of handling about 200,000 customers. The majority of the manufacturing will take place in the U.S. at AT&T's plants in Oklahoma City, Andover, Massachusetts, and Columbus, Ohio. Software for the system will be created at facilities in Chicago and New Jersey.

SIVAM: A CASE STUDY IN SUCCESSFUL ADVOCACY

Following intense advocacy efforts by the U.S. Government, the Government of Brazil selected a U.S. consortium — led by Raytheon — to build a \$1.5 billion Amazon environmental surveillance and air traffic control system (SIVAM). SIVAM will provide Brazilian government agencies with the capability to collect and process the information required to protect the environment, combat illegal mining and drug trafficking, improve population and public health controls and strengthen border security. The project calls for the delivery of an integrated network of telecommunications, remote satellite sensing and imagery, and ground based and airborne sensor systems controlled by regional and national coordination centers.

The Administration's support of the Raytheon consortium's bid is a good example of how the Clinton Administration can help to generate good jobs through partnership with the private sector. Faced with stiff competition from a European group of companies led by the French firm Thomson CSF, the U.S. government was able to assist the Raytheon consortium — helping to level the competitive playing field in Brazil. The selection of the Raytheon-led group of companies to produce the SIVAM project was partially a result of:

- Personal support from President Clinton via a letter to President Franco of Brazil;
- Several meetings with Brazilian Ministers and SIVAM officials in Brazil by Secretary Brown;
- Support by our embassy in Brasilia, including the Ambassador, DCM, and US&FCS staff;
- Active monitoring by key senior officials, through the Trade Promotion Coordinating Committee Advocacy Network, of the status of the bidding process;
- Advocacy letters from Secretary Brown, TDA Director Grandmaison, EPA Administrator Carol Browner, FAA Administrator David Hinson and NOAA Under Secretary Baker and from Members of Congress;
- Extraordinary flexibility by the Ex-Im Bank in developing a competitive package that was able to provide the same level of support as that extended by the French government; and
- Additional financing, by OPIC, if necessary.

In addition, the Advocacy Center organized several meetings of the Administration's interagency "Advocacy Network" to build support for the project and to develop a coordinated advocacy strategy for the SIVAM project. Key agencies involved included: Ex-Im Bank, Environmental Protection Agency, the Trade and Development Agency, Overseas Private Investment Corporation, NASA, the Federal Aviation Administration, and the Departments of State, Commerce, Agriculture, Interior, and Justice.

Dennis J. Picard, Raytheon chairman & CEO said, "We welcome the challenge of producing and delivering this complex system. We're proud that the Brazilian government has selected us from a formidable list of competitors to carry out this large and important project. This win was due in part to the excellent support provided by the U.S. government, the Department of Commerce and the Ex-Im Bank. The Administration worked very hard for U.S. industry on this project." Picard also noted that, "Among Raytheon and its team members, this program represents approximately 20,000 direct job-years in the United States." The SIVAM contract will support over \$1 billion in U.S. exports and help place U.S. industry in an outstanding position in the lucrative South American market.

Implementing the 65 Recommendations of the 1993 Report Improving Trade Finance

"In the same way that motor oil is essential for the smooth operation of a car engine, financing is essential to U.S. export success. Financing is the lubricant that keeps the U.S. export engine operating smoothly. Without it U.S. exports and a growing number of U.S. jobs are at risk."

From Export Financing: A Key to U.S. Export Success, National Association of Manufacturers, June 1994

"American companies have the competitive products. Fast growing foreign markets have the demand. Often the critical factor in bringing these two together is export finance. Our mission is to provide this financing where it is most needed to support U.S. exports and jobs."

Kenneth Brody, President and Chairman, Export-Import Bank of the United States, remarks at a Warsaw, Poland, business briefing, June 1994

The private sector stresses that availability and competitiveness of trade financing often play a decisive role in the export success of American companies.

Last year's Report identified a number of actions that agencies should take to counter trade-distorting financing practices by our foreign competitors, improve coordination among federal financing agencies, and increase access to export financing. The Export-Import Bank of the United States (Ex-Im Bank), the Overseas Private Investment Corporation (OPIC), the Trade and Development Agency (TDA) and the Small Business Administration (SBA) have spearheaded Administration efforts over the past year to develop a new, aggressive trade finance strategy to help American firms compete and win overseas. These agencies now meet regularly to discuss projects and develop a more integrated approach to helping U.S. firms sell their goods and services abroad. An interagency task force chaired by Ex-Im Bank has led our efforts to implement the recommendations in our last Report. This section details many of these efforts. [Those trade finance initiatives specifically targeted at smaller firms are discussed in the section "Helping Small- and Medium-Sized Businesses."]

The term "trade finance" as used in this report means any private or public sector funding that directly or indirectly generates U.S. exports. In addition to the trade finance services provided by private lending institutions and organizations, it includes the export finance programs of the Export-Import Bank of the United States and the Department of Agriculture, the project finance and insurance programs of the Overseas Private Investment Corporation, the feasibility study program of the Trade and Development Agency, the export working capital program of the Small Business Administration, and the Multilateral Development Banks with the U.S. Government as a participating member. At the state and local levels, public and private export development entities offer unique export finance programs and/or access to federal government programs.

Countering Foreign Tied Aid

Our major competitors, particularly in Europe, provide concessionary financing for capital projects tied to the purchase of that country's goods and services. These foreign tied aid commitments, totaling \$7 billion worldwide in 1993, distort international competition and disadvantage U.S. companies bidding on foreign capital projects. The Administration continues to work for the reduction of such tied aid commitments.

"Our foreign competitors benefit from government financing for their sales of telecommunications equipment in many markets. The TPCC's effort to combat foreign government tied aid is giving U.S. exporters an equal opportunity to compete."

Robert E. Allen, Chairman
and CEO, AT&T

As recommended in the September 1993 Report, Ex-Im Bank established the Tied Aid Capital Projects Fund to counter and ultimately eliminate the use of trade-distorting foreign tied aid credits. The Fund, operating with a subsidy budget of \$150 million, seeks to level the international playing field for U.S. exporters.

Ex-Im Bank does not use the Capital Projects Fund to initiate tied aid credits, but is prepared to counter potential foreign tied aid offers. Whenever possible, Ex-Im Bank seeks agreement among member governments of the Organization for Economic Cooperation and Development (OECD) against providing tied aid financing for specific projects. If such agreements are not reached, Ex-Im Bank provides U.S. exporters with an early indication of its willingness to counter foreign tied aid offers.

The strategy is already helping U.S. companies compete on a more equal basis with our major competitors. Over the past year, Ex-Im Bank has taken action to match, if necessary, foreign tied aid offers for 10 projects. If won by the U.S. bidders, these projects could incorporate over \$500 million of U.S. exports. Among the ongoing competitions are contracts for an airport, hydropower project, and medical equipment in China; locomotives, airport equipment, and in Indonesia; locomotives for Tunisia; and power plant emissions scrubbers in Turkey. Ex-Im Bank has also successfully reached agreement among other OECD governments to refrain from tied aid use for projects valued at approximately \$500 million.

The Administration will pursue an aggressive and fully funded tied aid strategy until tied aid credits are eliminated altogether. These goals are in accordance with the 1993 Report and Ex-Im Bank's statutory requirements.

NEW TIED AID POLICY HELPS LEVEL INTERNATIONAL PLAYING FIELD FOR SMALL EXPORTER

Ellicott Machine Corp., a 100-employee Baltimore maker of dredging equipment, is in the running for a \$34 million Indonesian order with the backing of an Ex-Im Bank low interest tied aid credit. Thanks to Ex-Im Bank, TDA and U.S. Government support for small and medium-sized businesses, says Ellicott President Peter Bowe, "We expect that we will be on a level playing field to negotiate a deal with the customer." Ellicott lost the last big Indonesian order to a German competitor whose bid was backed by a soft German Government loan tied to the purchase of German products. This time, under an aggressive new tied aid policy to match soft loans extended by other governments, Ex-Im Bank offered a \$34 million low-interest long-term loan. In addition, TDA provided a training grant to assist Ellicott in the final bidding process.

Feasibility Studies

Through the funding of feasibility studies, the U.S. Government enables American businesses to become involved in the planning stage of infrastructure projects in overseas markets. The studies include advice to a host country about the availability of appropriate U.S. equipment and services—advice that often leads to follow-up contracts for the feasibility study contractor and to U.S. exports during the project's implementation.

"Getting American business involved early in the planning process of infrastructure and industrial projects is vital to the promotion of U.S. exports."

J. Joseph Grandmaison,
Director, U.S. Trade and
Development Agency

[The following section discussing feasibility study funding was not agreed upon by all agencies. Two alternatives are provided:

[In last year's Report, we recommended that funding for feasibility studies be consolidated in TDA, a small agency with a proven track record. We are still in the process of implementing this recommendation. The Department of Energy and OPIC transferred \$2.7 million to the TDA. However, the bulk of feasibility study resources, previously distributed by the Agency for International Development, has not yet been transferred.]

[or]

[In last year's Report, we recommended that funding for feasibility studies be consolidated in TDA. This recommendation covered proposed major projects designed primarily to support U.S. exports and where the funding is not linked to a follow-on project. In the current fiscal year, TPCC member agencies including DOE, OPIC, and AID transferred funds to TDA which had previously been designated for feasibility studies. Future transfers will depend on whether each agency determines that feasibility studies are necessary to achieve its program objectives. In addition, Ex-Im Bank is seeking a change in its legislative authority to permit it to transfer funds to TDA for feasibility studies.]

FEASIBILITY STUDIES WORK

It often takes years following a feasibility study before a project is implemented and begins to generate exports. But some small companies, such as HCR, a women-owned firm based in Rochester, N.Y., find that the benefits for U.S. firms can begin almost immediately. This past year HCR was awarded \$300,000 to jointly fund a feasibility study on health care in the Republic of Tatarstan, Russia. Before HCR had even completed its study, Tatarstan health officials were making plans to purchase medical equipment from U.S. suppliers, according to CEO Louise Woerner. HCR is actively pursuing several spin-off projects as a result of the TDA-funded study.

In 1993, TDA provided \$300,000 for a feasibility study on the modernization of the Lukoil-Perm oil refinery in Russia. ABB Lummus Crest of Bloomfield, N.J. carried out the study and contributed \$100,000 to its cost, as did Lukoil-Perm. As a result of the study, Lukoil-Perm signed a \$96 million contract with Lummus Crest for U.S. equipment and services. The company financed this transaction with an \$86.7 million Ex-Im Bank guarantee.

SBA AND THE STATE OF CALIFORNIA FINANCE SMALL BUSINESS EXPORTER

Edward Hunt, President of Laub Engineering of Norwalk, Cal. knows about the difficulty small firms can have arranging financing for export deals. Laub produces liquid filling systems which are used to fill bottles with a variety of consumer liquids — everything from motor oil to fruit drinks to body lotions. Until recently, Laub's export orders had been small. Then the 15-employee company landed a large contract to provide equipment for a new Pennzoil Company motor oil plant in Jakarta. With the support of a joint SBA/California-backed guarantee for \$792,700, Laub was able to complete the sale. The company has now expanded to 28 employees, all of which will stay on after the Pennzoil contract is completed. Laub already has bid on another large project and plans to return to SBA and the state if the contract comes through.

In last year's Report, we also pledged to improve coordination among agencies involved in the review of projects for which feasibility grants were being sought. To this end, regional interagency working groups have been established during the past year to discuss the proposals received by each agency and explore ways of working together to turn them into solid export opportunities. TDA consults with other agencies on the projects it is considering for support.

Project Finance

As recommended in our 1993 Report, OPIC increased its per project financing limit from \$50 million to \$200 million. Increased project finance support is a major focus in the coming year. Our initiatives are addressed in the trade finance section of "Focusing on New Opportunities".

State and Local Financing

Many state and local governments operate export loan guarantee programs; however, many of these programs are restricted to relatively small-sized loans or face state budget constraints. In last year's Report, we pledged greater cooperation with state and local entities to increase business access to U.S. Government financing. The SBA and Ex-Im Bank have taken the lead to achieve this goal.

SBA: The agency strives to create a "win-win" situation by co-guaranteeing loans with state and local governments. These arrangements not only leverage both SBA and the local finance entities' guarantee authority, but also allow SBA to take advantage of the local entities' finance expertise and loan-packaging capabilities. Co-guarantees may cover equal shares of a loan, or SBA can guarantee a variable amount, provided the total guarantee does not exceed 90 percent of the loan amount. Under these co-guarantees, any losses and recoveries will be shared on a pro-rata basis.

The SBA is actively implementing a co-guarantee agreement with the State of California. To date, this arrangement with the California Export Finance Office has resulted in preliminary commitments totaling \$7 million. As the process is streamlined, we expect the number of co-guaranteed loans to increase significantly. SBA has entered into discussions with a number of other state and local trade finance authorities to establish additional co-guarantee agreements during FY 1995.

Ex-Im Bank: The Bank's City/State Program is a cooperative arrangement with state and local export assistance entities dedicated to assisting small and less experienced exporters. Through the "piggy-backing" of state, local, and federal resources, a state or local organization acquires an Ex-Im Bank-trained professional who assists an exporter through the entire export financing process: from initial counseling and application packaging to securing a commercial bank to fund an Ex-Im Bank-supported transaction.

Since its inception in FY 1988, Ex-Im Bank's City/State Program has grown from three cities and three states producing roughly \$20 million in export sales to 25 members which supported \$75 million in exports in FY 1993. Ex-Im Bank is currently assessing how the program can be improved: new members are being aggressively sought; existing members are being encouraged to establish satellite networks throughout their states; City/State representatives are being integrated into the Export Assistance Centers; and the feasibility of co-guarantees and other forms of possible support for state and local guarantee programs is being evaluated.

Trade Finance Partnerships

As recommended in last year's Report, we have focused on building creative partnerships with the private sector to make more money available to support export activities. Two of these efforts—the Lender Education Program (put together by Ex-Im Bank and SBA) and Ex-Im Bank's initiatives to create a secondary market for trade finance activities—have been developed in close partnership with the private sector. These two programs will help expand access to export financing, particularly for smaller exporters.

Lender Education Program: The Lender Education Program is intended to educate the lending community about recent enhancements to U.S. Government export finance programs. The goal is to engage a broader spectrum of lenders in trade finance, especially in the pre-export financing area. Jointly developed by Ex-Im Bank, SBA, and several private sector banking associations, the Lender Education Program is aimed at smaller, less internationally experienced lenders. The program will provide an overview of U.S. Government export finance policies as well as specific "hands-on" information targeted to meet the financing needs of small- and medium-sized firms. The first phase of the program will be offered in 12 cities beginning in September 1994, followed by an additional 12 cities in late 1994 or early 1995.

Secondary Market: A secondary market—a financial market in which previously issued securities are bought and sold—facilitates the efficient allocation of funds and provides an alternative market in which existing securities can be traded. Like the primary market (where securities are issued or created), secondary markets offer companies and banks the ability to raise

needed capital through the form of debt and/or equity. However, while larger, well-known, or high-growth companies can access these sources of funding fairly readily, smaller companies find it relatively more difficult and costly because they are frequently privately held or lack ready access to capital markets. For instance, in the pre-export financing area, the existence of a secondary market would offer lenders an option to sell the assets before maturity, thereby freeing funds to reinvest in other loans. In this way, a viable secondary market could facilitate a significant number of pre-export loans that would not have otherwise occurred. It is estimated that the formation of an efficient secondary market requires at least \$2 to 3 billion in securities available for trading.

Ex-Im Bank, in conjunction with the Private Export Funding Corporation (PEFCO), will offer two pilot programs aimed at building a foundation for the future creation of a secondary market, effective October 1, 1994. PEFCO will act as a liquidity/overline support mechanism willing to purchase Ex-Im Bank-guaranteed working capital loans from lenders. In addition, PEFCO will act as a "lender of last resort" for those Ex-Im Bank-guaranteed transactions for which no private lender is willing to participate. These pilot programs build a foundation for stimulating greater private sector interest in independently performing these functions. Once the programs demonstrate market acceptance and profitability, the private sector should be more willing to step in and expand the market on a much larger scale.

The Ex-Im Bank is launching the pilot programs after concluding that several key conditions for creating a private sector secondary market for short-term working capital assets do not now exist. Necessary conditions include: a substantially larger volume of transactions must be originated to form a "critical mass" of assets for sale; enhanced financial attractiveness; greater homogeneity of such assets; and finally, the presence of U.S. Government unconditionally guaranteed assets or other credit enhancements to reduce perceptions of high risk.

"If you add up what comes back to us directly, and what the indirect impact is on our exports, these [multilateral development] banks mean nearly \$8 billion to our economy. And that translates to nearly 150,000 jobs."

Lloyd Bentsen, Secretary of the Treasury, remarks at the release of a Multilateral Development Bank procurement report, May 1994

Multilateral Development Banks (MDBs)

With annual commitments topping \$40 billion, the five Multilateral Development Banks—World Bank, Inter-American Development Bank, Asian Development Bank, African Development Bank, and the European Bank for Reconstruction and Development—are an important financing source for U.S. exports and American jobs. Last year, \$2.7 billion in U.S. procurement came directly through MDB-financed projects, supporting about 54,000 American jobs. Firms all across America have won MDB-financed contracts in recent years. The indirect impact is larger still, supporting billions of dollars of additional trade and thousands of quality jobs.

Yet, U.S. firms, particularly small- and medium-sized exporters, have not aggressively and consistently sought international business opportunities financed by the MDBs. Factors that may discourage their participation are a lack of access to timely and detailed information on projects under consideration by the Banks; unfamiliarity with international competitive bidding procedures; and difficulty of doing business in developing markets.

We have increased the support provided to exporters who pursue procurements through the MDBs. Our objectives are to assure that U.S. firms: (1) are made aware of business opportunities from the MDBs as early as possible in the project cycle, and (2) have a full and fair chance to compete successfully with firms from other countries. To meet these objectives, we have:

- Opened a new MDB Counseling Center at the Commerce Department in May 1994 to disseminate timely information on upcoming procurement opportunities. This Center advises U.S. businesses on programs and projects financed by the MDBs and provides access to a variety of electronic databases that contain information on MDB project pipelines, policies, and reports.
- Established business development and export promotion as one of the highest priorities of the U.S. Executive Directors and Alternates at the Banks.
- Co-hosted with local groups more than 40 information programs in 21 cities around the country, with more than 1,500 participants.
- Added procurement liaison and support staff to the MDB Executive Director's offices and additional staff to headquarters.
- Launched a pilot program to focus on Inter-American Development Bank-financed procurement opportunities to test the effectiveness of our MDB strategy.

- Restructured two TDA funds at the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC). Called Evergreen because they will continually be replenished, the funds provide U.S. companies more opportunities to conduct feasibility studies on EBRD and IFC projects.

In addition to the programs outlined above, current interagency initiatives include: a trade finance training course for overseas commercial staff; enhanced outreach activities by Ex-Im Bank, TDA, and OPIC; and better coordination between the Departments of State and Commerce and AID in the collection and dissemination of MDB project information.

We are focusing on additional actions necessary to implement fully the intent

COMPANIES SEIZE OPPORTUNITIES AFFORDED BY MULTILATERAL DEVELOPMENT BANKS

A Greensboro, N.C. company, working closely with the Commerce Department district office and using information provided by our Multilateral Development Bank office, recently won a series of contracts in Argentina. Because of this initial success, the company subsequently signed a \$350,000 joint venture contract with a public utility in that country. [Financing Source?]

Through the assistance of our Asian Development Bank (ADB) liaison officer and the U.S. Executive Director's office, a Maryland firm was awarded a \$5 million contract financed by the ADB to supply telecommunications equipment to the Indian Government.

[State to provide information on \$10 million contract in India by AT&T with Asian Development Bank loan]

of the MDB recommendations in last year's Report. We are improving the quality, timeliness, and scope of information regarding MDB opportunities to U.S. companies by upgrading our communication systems and requiring our personnel to forward information to the MDB office in a prompt manner. We will also improve the training of U.S. Government personnel who assist U.S. firms seeking business through MDB-supported projects.