

CONGRESSMAN LES AuCOIN
TESTIMONY ON TRADING COMPANY LEGISLATION
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
COMMITTEE ON FOREIGN AFFAIRS
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Mr. Chairman. I want to thank you and the other Members of the Committee for giving me this time today to offer my thoughts about the proposals to encourage the formation of trading companies. I want to also commend you, Mr. Chairman, for moving expeditiously to hold these hearings so that the House might have an opportunity to vote on a proposal before adjournment.

Two weeks ago, when I introduced my own bill to promote trading companies, H.R. 7364, I recounted for the Members of the House the plight of the United States in the international marketplace. This is a story with which we are all too familiar, one that is almost unchanging from year to year:

- We continue to run a trade deficit, last year in excess of \$25 billion.
- Our share of world markets has dropped over the last decade from over 21 percent to around 12 percent -- while the total value of world exports climbed by almost \$1 billion.
- Growth in American productivity continues to decline, expanding by only 1.7 percent in 1977 and by only .8 of 1 percent the following year.

Looking beneath these depressing numbers, we find a maze of government disincentives to potential exporters -- lack of financing, taxes, anti-trust laws -- as well as market disincentives keeping American business and industry out of the export field -- lack of knowledge about foreign markets, little or no expertise in overseas shipment of goods and services.

The answer to reversing these trends and correcting these problems is manifold and includes a number of small, but important actions by the Congress. One of the most significant is the legislation before your committee today, Mr. Chairman, to promote the formation of American export trading companies. It is a bold and impelling step to mobilize the productive and commercial resources of the country for one end: export.

If there is one piece of evidence that underscores the need for bold action, it is this: Less than 10 percent of all manufacturing companies in the United States are involved in export trade, slightly more than 30,000 firms. What about the other 280,000 companies?

To reduce these numbers to practical realities, let me call your attention to a company in my district that manufactures rock crushers. It has a healthy U.S. market for its equipment but occasionally makes an export sale. It has made no significant effort to increase its presence in the

international marketplace because of past problems with the marketing and shipping of its machinery, because it has encountered problems in financing overseas sales. In one aborted transaction, the company was putting together a sale in Singapore for \$1.6 million, hardly a significant amount to a large firm. But to a firm that usually transacts deals of between \$100,000 and \$200,000, the Singapore sale was important. In the end, the deal fell apart for lack of financing at an attractive rate.

The point of this vignette, Mr. Chairman, is that the firm will continue to take the path of least resistance, confining itself to domestic sales, unless and until there is an easier way for it to market and finance its product abroad.

A trading company of the type proposed by my bill and the others before you would be of immense help to this company in meeting the challenge of international competition. I'm not going to cry wolf and say that without a trading company, the firm is not going to go bankrupt. But it isn't going to grow in the way that it is possible by entering foreign markets. In that sense, the company will make fewer rock crushers, provide fewer jobs and make a little less money. And the United States will have fewer dollars in its export account. The company will survive, but it won't be as vigorous and the country won't be as vigorous as they both can be with expanded exports.

Recognizing that trading companies can play a critical role in expanding our share of world markets, what, one might ask, impedes their formation and why is legislation necessary?

The answer rests in part with federal laws and regulation and in part with the structure of enterprise and our traditional ways of doing business. Also uncertainties over our anti-trust laws discourages cooperation among U.S. producers in the export field.

While the bills that have been introduced so far attempt to deal with these problems to various degrees, I want to stress the importance of adequate financing for exports. Even though financing has long been recognized as a frequent stumbling block for fledgling exporters, U.S. banks are prevented from offering most export trading services.

In turning to specific comments about the legislation before your Committee, Mr. Chairman, I want to underscore the critical need for any legislation to allow for bank participation in export trading companies. Without being able to tap the financial assets and services of a bank or banking organization, any export trading company formed will be nothing more than a well-intentioned pat on the head to the export community.

The almost identical banking provisions of my bill and the one introduced by Congressman LaFalce will help to meet this fundamental need.

Also of vital importance to the success of any trading company legislation is anti-trust exemption and reform of the Webb-Pomerene law. I do not pretend to be an expert in this subject area but am hopeful that this problem can be addressed within the context of the trading company legislation. I would support any reasonable effort to do so.

Finally, Mr. Chairman, I want to note that the bill I introduced two weeks ago omits one provision that is contained in the bills sponsored by Mr. LaFalce and Mr. Bonker, and in the Senate bill. It is the provision allowing state and local authorities to own and participate in export trading companies.

While publicly owned port authorities across the country are vital links in our national export effort, this provision is troubling to me and should be to anyone who believes in maintaining a separation between the State and commercial activity.

The competitive implications of this provision are far-reaching and would, I believe, seriously undermine the structure of our economy and what remains of our traditional free enterprise system.

In closing, I want to again thank the Committee for its leadership in this area and pledge my full efforts in the Banking Committee on behalf of this legislation to bring a bill to floor. I look forward to working with you.