

GAO

Testimony

For Release on
Delivery
Expected at
10:00 a.m. EST
Wednesday
August 3, 1988

HUD's Sponsorship of U.S. Companies'
Participation in the International Trade Show
for Construction Equipment and Technology in
Moscow, U.S.S.R.

Statement of
John H. Luke, Associate Director
Resources, Community, and Economic
Development Division

Before the
Employment and Housing Subcommittee
Committee on Government Operations
House of Representatives



042855/136463

Mr. Chairman and Members of the Subcommittee:

We are here today at your request to discuss the commercial trade promotions of the Department of Housing and Urban Development (HUD) in relation to the May 1987 International Trade Show for Construction Equipment and Technology, held in Moscow, U. S. S. R. The show was called Stroyindustriya '87. Our work, performed in response to your request, examined why HUD and not the Department of Commerce led the trade promotion initiatives and the costs, staff-time, and the sources of funds used by HUD for its activities supporting U. S. trade promotion efforts with the U. S. S. R. In addition, we attempted to ascertain how successful the U. S. companies were in securing business opportunities in the U. S. S. R. as a result of the trade show.

In summary, Mr. Chairman, we found that:

-- HUD's trade promotion activities grew out of its role under the 1974 U. S. -U. S. S. R. Agreement on Cooperation in the Field of Housing and Other Construction. Although international commercial promotions are generally performed by the Department of Commerce, HUD undertook them with Commerce's support because building construction had not been identified by Commerce as a high priority initiative.

-- HUD did not have the authority to spend appropriated funds for commercial trade promotion activities--about \$1.6 million--and as a result violated the Anti-Deficiency Act. Further, HUD authorized some of the money to be spent on certain U.S. companies' rental and transportation expenses and on travel and per diem for technical experts to represent some companies at the trade show--practices not followed by Commerce in its trade promotion activities.

-- A limited number of U.S. companies to date have concluded business with the Soviets as a result of the trade show and companies were evenly divided as to whether their participation was worth the cost to attend.

HUD'S U.S. - U.S.S.R. TRADE PROMOTIONS

HUD's commercial trade promotion efforts grew out of its role as the U.S. executive agency for implementation of the U.S. - U.S.S.R. Agreement on Cooperation in the Field of Housing and Other Construction, signed on June 28, 1974. The original purpose of this agreement was to carry out a mutually beneficial program of technical cooperation on projects in housing, construction, and urban development.

HUD's agreement to add a commercial dimension to the U.S.

-U. S. S. R. agreement on housing and other construction--which led to HUD's sponsorship of U. S. companies' participation at the trade show, is documented in a protocol signed by the Secretary of HUD and his Soviet counterpart in September 1985. HUD told us that the Soviets suggested a commercial trade promotion component and it welcomed the opportunity. In January 1987, the Secretary of HUD characterized the commercial aspect of the agreement as a major departure from past practice. He said he met with Soviet ministers to identify their priorities and determine how American companies could help meet those needs to the mutual benefit of both parties.

Department of Commerce officials said they supported the trade promotion activities of HUD through Stroyindustriya '87. In October 1986, HUD and the Department of Commerce executed a memorandum of understanding that described the responsibilities of the two agencies with respect to the planned trade promotion activities. In early 1986, the Secretary of Commerce said that although Commerce was involved in an extensive trade promotion program with the Soviet Union for fiscal year 1987, it had not identified building materials or construction technology as a high priority area because (1) other industries, such as oil and gas, had higher market potential, and (2) the limited allocation of hard currency for purchases by the Soviets. The Secretary of Commerce added, however, that Commerce would assist HUD in its efforts to promote building products as it had assisted other federal agencies in trade development and promotional programs.

In September 1986, HUD delivered product information on about 350 U.S. companies to the U.S.S.R. to help determine Soviet interest in such products. This effort was followed by a November 1986 advance marketing mission to the U.S.S.R. when additional information was provided to the Soviets and 15 sales promotion seminars were conducted by U.S. companies. In January 1987, HUD conducted an advance marketing mission. U.S. manufacturers of construction machinery and equipment traveled to the U.S.S.R. to assess Soviet interest and begin negotiations to sell machinery and equipment that was to be displayed at the May 1987 trade show. These advance efforts, according to HUD officials, were to help identify Soviet interest in U.S. products.

In May 1987, HUD's trade promotion efforts culminated in its sponsorship of U.S. participation in the Soviet trade show, held from May 27 through June 5, 1987. According to HUD, about 400 firms from 23 countries participated, and about 110 U.S. companies were represented at the U.S. pavilion. HUD reported that about 175,000 people visited the U.S. exhibit.

HUD U.S. -U. S. S. R. AGREEMENT EXPENDITURES

We estimate that HUD spent about \$3 million during fiscal years 1984 to 1987 for activities related to the U.S. -U. S. S. R. agreement. About \$1.4 million, or 46 percent, of HUD's costs were

related to the traditional exchange of technical information, such as designing concrete mixtures for use in severe climatic conditions. The remaining \$1.6 million, or 54 percent, was spent on commercial trade promotion activities, such as the Moscow trade show. HUD provided information indicating that it spent about 21 staff-years on agreement activities. Of this number, about 5-1/2 staff-years were devoted to commercial trade promotion activities. The remaining staff-years were spent on the traditional technical exchange activities.

Of the \$3 million, \$1.7 million, or about 56 percent, was charged to HUD's Salaries and Expenses appropriation and about \$1.3 million, or 44 percent, to its Research and Technology appropriation. HUD advised us that it considers both these appropriations as being available to fund its activities in support of the U.S. -U. S. S. R. housing agreement, including its recent trade promotion activities.

We have concluded, however, that HUD did not have authority to fund commercial trade promotion activities from its appropriated funds. HUD's authority to exchange and assemble housing and urban planning information extends only to research programs that relate to HUD's mission of administering programs to meet the Nation's housing needs and to provide for the development and preservation of communities. The trade promotion activities that HUD sponsored did not, in our opinion, further this mission and were, therefore,

not consistent with the purposes for which such funds were appropriated by the Congress. Rather, these trade promotion activities were designed to enhance business opportunities of U. S. companies. The lack of appropriate statutory authority for the expenditure of such funds for these activities means that HUD has, in our opinion, violated the Anti-Deficiency Act and, therefore, should report all pertinent facts and a statement of the action taken to the President and the Congress, in accordance with 31 U. S. C. 1351 (1982).¹

In a related matter, HUD's Office of Inspector General, has prepared a draft report which shows that HUD charged the cost of some programs that should have been funded from its Research Support account to other program accounts. Apparently, this was to prevent the cost of HUD's trade promotion activities from over obligating the Research Support account. The Inspector General's draft report has identified about \$450,000 of such incorrectly recorded obligations. This situation would represent an additional violation of the Anti-Deficiency Act.

Of the \$1.6 million HUD spent on commercial trade promotion activities, about \$845,000 was paid to four contractors that HUD used to assist it in carrying out commercial promotion activities,

¹When an agency's appropriation is not available for a designated purpose, and the agency has no other funds available for that purpose, any officer of the agency who authorizes an obligation or expenditure of agency funds for that purpose violates the Anti-Deficiency Act.

such as assisting in the identification and recruitment of U. S. companies, and management of the trade show. HUD also paid certain expenses of U. S. companies that attended the Stroyindustriya '87 trade show. It authorized payment for the cost of renting exhibit space--about \$90,000; authorized payment for the transportation of some companies' materials and products--about \$72,000; and approved travel and per diem expenses for technical experts representing certain companies--about \$30,000.

HUD officials indicated that they paid companies' expenses to help ensure the success of the trade show. Department of Commerce officials advised us that whenever Commerce conducts trade promotion activities of this nature it does not pay any expenses of the companies participating.

U. S. COMPANIES' VIEWS ON TRADE SHOW SUCCESS

To obtain information on the benefits of Stroyindustriya '87, we mailed questionnaires to U. S. companies that attended or were represented by an agent at the trade show. Seventy-nine U. S. companies responded. Eight companies reported that they have done some business as a result of Stroyindustriya '87. Four companies have done \$25,000 or less, 2 companies between \$25,000 and \$100,000, and 2 companies over \$1 million.

Sixty-nine companies (about 87 percent of the respondents) said they have not been able to conclude any business with the Soviets. However, 45 companies said they are still actively pursuing business or trade opportunities with the U. S. S. R.

The U. S. companies were about evenly split on how close the results of Stroyindustriya '87 met their expectations--47 percent said that the results were at least moderately close to what they expected. Similarly, U. S. companies were about evenly split on whether the results of the trade show were worth what they spent to attend.

Mr. Chairman, this concludes my prepared statement. I will be glad to respond to any questions that you or the Members of the Subcommittee might have.