

FILE COPY

096503

49910

Book

3.42.01



REPORT TO THE CONGRESS

13-0421



Improved Foreign Market Analyses
Can Increase United States Exports

B-172255

Department of State
Department of Commerce

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

BEST DOCUMENT AVAILABLE

01205

096503

JULY 6, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-172255

u
To the President of the Senate and the
Speaker of the House of Representatives

This is our report on how improved foreign market
analyses by the Department of State and the Department of
Commerce can increase U.S. exports.

Our review was made pursuant to the Budget and Ac-
counting Act, 1921 (31 U.S.C. 53), and the Accounting and
Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director,
Office of Management and Budget; the Secretary of State;
and the Secretary of Commerce.

Thomas B. Staats

Comptroller General
of the United States

BEST DOCUMENT AVAILABLE

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	5
2 NEED FOR ANALYZING, REPORTING, AND DIS- SEMINATING MARKET SHARE INFORMATION	9
Industry views on Foreign Service re- ports	10
Commerce views on Foreign Service re- ports	11
Commerce-initiated export studies	13
3 BRAZIL--A CASE STUDY OF OVERSEAS COMMERCIAL REPORTING	17
GAO market survey reports	19
Reaction of industry representatives	20
Reaction of Commerce officials	22
4 CONCLUSIONS, AGENCY COMMENTS AND OUR EVAL- UATION, AND RECOMMENDATIONS	23
Conclusions	23
Agency comments and our evaluation	24
Recommendations	25
APPENDIX	
I Contents of market survey reports	27
II Machine tools survey report	29
III Comments of industry representatives	41
IV U.S. share of world exports of manufactures	44
V Letter dated March 7, 1972, from the Deputy Assistant Secretary for Budget and Fi- nance, Department of State, to the General Accounting Office	45

BEST DOCUMENT AVAILABLE

APPENDIX

P

- VI Letter dated April 7, 1972, from the Assistant Secretary of Commerce to the General Accounting Office
- VII Principal officials of the Departments of State and of Commerce responsible for administration of activities discussed in this report

BEST DOCUMENT AVAILABLE

D I G E S T

WHY THE REVIEW WAS MADE

Although U.S. merchandise exports show a trend toward increasing, the U.S. share of the world market for manufactured goods has decreased. The U.S. share of this market declined from 25 percent in 1960 to 21 percent in 1971: a \$6 billion loss in exports and about 400,000 fewer job opportunities in the U.S. economy.

This is one of a series of General Accounting Office (GAO) reports on Department of Commerce efforts to expand exports. In this report GAO attempts to identify factors that business must deal with to expand its exports of U.S. goods.

Background

The Department of Commerce--through U.S. Embassies and consulates--regularly collects and reports data on the market potential for U.S. goods. Commerce makes this data available in reports, articles, and publications on foreign trade and investment potential to all interested parties. (See pp. 7 and 8.)

The value of sound commercial reporting has been emphasized by the National Export Expansion Council, a business advisory group to the Secretary of Commerce. Commerce considers such reporting to be a key element in attaining its goal of increasing U.S. exports to \$50 billion by 1973. (See p. 9.)

FINDINGS AND CONCLUSIONS

The present system of collecting and reporting commercial information by the Foreign Service does not develop the underlying reasons affecting the U.S. share of foreign country markets. Government and business officials contacted by GAO agreed that existing reports lacked the details and analyses necessary to be of use to U.S. exporters. Examination of commercial reports prepared by the U.S. Embassy and consulates in Brazil (used as a case study) confirmed the need for improving Foreign Service commercial reporting. (See p. 18.)

GAO staff prepared sample market survey reports for three product lines: machine tools, textile machinery, and scientific instrumentation. Industry representatives and Commerce officials reacted favorably to the reports, indicating that such reports could be effective in promoting U.S. exports. (See pp. 20 and 22.) The fact that these reports were prepared by people not specifically trained in market analysis indicates that similar reports could be prepared by resident commercial office staffs overseas. (See p. 23.)

The usual reasons advanced for the loss of the U.S. market share, such as higher prices and lack of financing, are not the only factors considered by prospective buyers. Servicing, delivery terms, and product quality frequently were some of the key determinants in buy decisions. It is desirable to establish a method of reporting which identifies the causes and suggests remedial actions. The U.S. market position can be improved if Government and business choose to learn the facts and to act on them. (See p. 23.)

There are no ready answers concerning reporting frequency, countries or products to cover, or who should prepare the reports. Commercial officers, marketing research firms, or Commerce people detailed in-country are possibilities that Commerce and State might consider. GAO does not suggest that the format it used is necessarily the one which should be adopted. Undoubtedly a more refined format can be developed by experts familiar with commercial-reporting techniques.

RECOMMENDATIONS

The Secretaries of State and of Commerce should expand on these GAO studies, with a view to refining them and to establishing guidelines for this type of commercial reporting. Specifically, studies of this type should:

- Identify product lines and market factors affecting U.S. exports.
- Suggest actions for U.S. Government agencies and industry to take to improve the U.S. overseas market position.
- Provide U.S. industry with the type of information which will be of most assistance in increasing exports.
- Establish a focal point in Washington, D.C., to ensure that reports are disseminated quickly to Government agencies and industry groups able to act on the information.

GAO recognizes that, due to the numerous market areas and product lines susceptible to examination, reporting must be selective.

- In identifying products, consideration should be given to the size of the potential market, the U.S. market share, and the product's importance to the U.S. economy.
- In selecting the foreign country markets, the potential for increasing U.S. exports should be of primary concern. Industry representatives stressed the need for information on markets in developing countries.

AGENCY ACTIONS AND UNRESOLVED ISSUES

State and Commerce were in substantial agreement with GAO's findings and recommendations.

State advised GAO that the recommendations were compatible with existing instructions to overseas posts on commercial reporting. It felt, however, that the report overemphasized the importance of commercial reporting to the expansion of U.S. exports in view of such other, broader considerations as monetary exchange rates and tariff barriers affecting the trade deficit. (See p. 24 and app. V.)

Commerce said the report demonstrated that analytical reporting was desirable and that properly motivated personnel would be capable of preparing useful reports explaining the decline of the U.S. market share and suggesting remedial actions. It wished to see wider coverage in analytical studies and planned to undertake comparative studies of key product lines in world markets.

Commerce believed that the report focused too much on the declining market share for analysis purposes and noted the value of similar analyses of situations where the U.S. market share was expanding.

Commerce pointed out that the Office of Management and Budget was studying the adequacy of overseas Government support for commercial activity. It felt that the study might reveal the extent to which further specialized market analysis by Foreign Service officers could be relied on and that staffing and funding considerations would substantially affect the extent of any increase in analytical reporting. (See p. 25 and app. VI.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report should be of interest to the Congress because of U.S. balance of trade problems and because improved foreign market analyses could assist in alleviating these problems.

BEST DOCUMENT AVAILABLE

CHAPTER 1

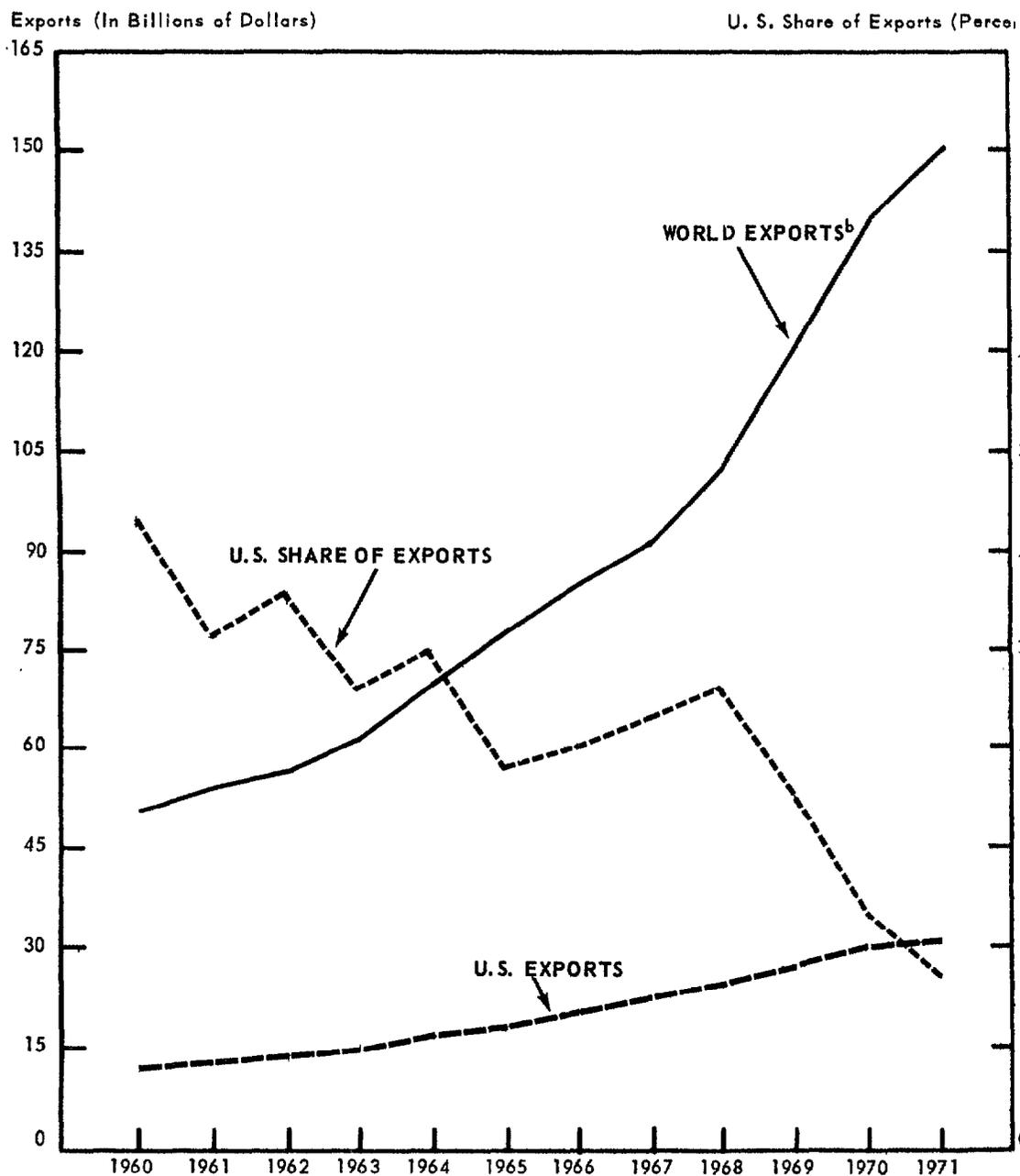
INTRODUCTION

For 10 of the last 11 years the United States has experienced a deficit in its balance of payments. The largest component in the balance-of-payments equation, and the one which has enabled the United States to finance its international military and economic programs, has been the surplus in its merchandise trade. The United States has traditionally exported more than it has imported, but in recent years the trend has been downward. The favorable trade balance declined from \$7 billion in 1964 to \$2.8 billion in 1970, even though merchandise exports reached an alltime high of \$42 billion. In 1971 U.S. imports exceeded exports by more than \$2 billion, and the United States suffered its first trade deficit since 1888.

U.S. merchandise exports have increased each year since 1960, yet the U.S. share of the world market has steadily declined. The United States had over 25 percent of the world market in manufactured goods in 1960, but in 1971 the U.S. share decreased to about 21 percent and West Germany became the leading exporter of manufactured goods. Had the United States been able to maintain its 1960 share, the value of its exports of manufactured goods in 1971 would have increased by about \$6 billion. Some Government officials estimated that this decline in the U.S. share of the world market resulted in about 400,000 lost job opportunities that were, and are, important to the U.S. economy. The following graph shows the decline in the U.S. share of manufactured goods from 1960 to 1971. (See also app. IV for decline by product category.)

To identify areas of export potential and to assist industry in making marketing decisions, the Department of Commerce receives commercial information on the export market potential for U.S. goods from overseas posts and disseminates it to interested parties. Through its headquarters in Washington, D.C., and 42 field offices located around the United States, Commerce makes this information available in numerous reports, articles, and publications relating to foreign trade and investment. Department of State overseas posts

DECLINE IN U. S. SHARES OF MANUFACTURES MARKET (Note a) 1960 TO 1971



^a The term "manufactures" refers to chemicals, machinery, transport equipment, and other goods except mineral fuel products, processed food, fats, oils, firearms of war and ammunition.

^b World exports are defined as exports from the 14 major industrial countries. These nations, which account for approximately four-fifths of world exports of manufactures to foreign markets, are as follows: United States, Austria, Belgium-Luxembourg, Canada, Denmark, France, Federal Republic of Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, and Japan. Exports to foreign markets are total exports excluding exports to the United States.

Source: Prepared By GAO From Department of Commerce Statistical Information

also provide information involving trade matters directly to Government and industry. These overseas posts are Commerce's principal source of information on developments and conditions in overseas markets. Reports from overseas posts are forwarded to designated recipients or to offices within Commerce for action, depending on the type and nature of the reports.

FOREIGN SERVICE REPORTING

Economic and commercial reporting traditionally has been one of the most important functions of overseas posts. Commercial officers and their staffs in U.S. Embassies and consulates are in an ideal position to accumulate and report current commercial information, since they are on the scene in foreign countries and, by virtue of their positions, have access to foreign and resident U.S. businessmen. In commenting on the importance of commercial information to the expansion of U.S. exports, the National Export Expansion Council, a group of eminent business leaders advising the Secretary of Commerce on trade matters, noted that commercial officers "fill a tremendously important role" in reporting commercial information.

Reporting requirements for U.S. Embassies and consulates are jointly determined by the Departments of State and of Commerce to provide a continuing flow of economic and commercial information to Government and industry, with emphasis on export promotion.

There are basically three categories of reports on commercial information:

- Scheduled reports, required on a repetitive basis.
- Unscheduled reports, submitted on a voluntary or request basis by Embassies.
- Foreign publications, publications of foreign governments or businesses containing economic and commercial information.

The magnitude of Foreign Service reporting available to the business community as part of the Department of Commerce's export expansion plans is indicated by the approximately

4,000 commodity, industry, and market reports prepared by overseas posts from August 1970 to July 1971. About 250 pertained to Brazil alone, the object of our case study.

SCOPE OF REVIEW

Our review included examining reports and correspondence at the Departments of Commerce and of State in Washington, D.C., and the U.S. Embassy and consulate in Rio de Janeiro and Sao Paulo, Brazil, respectively. We interviewed officials at the above locations; officials of Brazilian firms; agents for U.S. and third-country firms; Brazilian banks, and U.S. consulting firms in Brazil. We interviewed also representatives of U.S. manufacturers, trade associations, and export houses in the United States.

BEST DOCUMENT AVAILABLE

CHAPTER 2

NEED FOR ANALYZING, REPORTING, AND DISSEMINATING

MARKET SHARE INFORMATION

There is little question concerning the importance of sound commercial information to U.S. industry. This was emphasized by the National Export Expansion Council in its 1967 study entitled "Export Promotions," which stated:

"No matter how good the product of our industry, nor the capital invested and the energy expended in selling abroad, serious mistakes can be made if basic intelligence on the situation abroad is faulty or missing entirely."

The Department of Commerce considers information on overseas markets to be a key element in attaining its goal of increasing U.S. exports to \$50 billion a year by 1973.

The Bureau of International Commerce, Department of Commerce, makes detailed market share reports available to overseas posts and to industry. These reports are prepared in both a country series and a commodity series. The country series covers 73 of the major trading nations and presents the dollar values for imports of about 1,100 manufactured products into these countries for a 5-year period.

The commodity series covers about 1,100 products and shows, by single-commodity categories, dollar values of exports of 14 countries to the United States and 90 other trading nations.

As part of the commercial activities carried on overseas, the Department of Commerce suggests that overseas posts analyze market share reports to identify and evaluate opportunities for U.S. export sales and to detect areas where declining U.S. exports indicate a need for remedial action. Such actions by the posts would, in our opinion, be desirable, but Commerce does not consider such analysis a firm requirement and, accordingly, does not make substantial use of the reports.

Commerce makes a number of other publications relating to foreign trade and investments available to industry. We did not attempt to evaluate the suitability of the reports and publications for the purposes intended; however, we noted that few provided in-depth information on potential markets for specific U.S. products.

INDUSTRY VIEWS ON FOREIGN SERVICE REPORTS

In October 1966 an interagency task force published a report on Embassy economic and commercial reporting. This report was based on a comprehensive study conducted by representatives of Commerce, State, and the Agency for International Development. As part of their review, they contacted 422 business firms and noted that:

"A common criticism levelled at Foreign Service reports was that they were not sufficiently timely and that they lacked essential detail. *** A not infrequent criticism was that the reports dealt too much with past events and not enough with future developments. *** Some firms suggested that more attention be paid to reporting on the developing countries where commercial and economic information gaps are greatest.***"

As a result of the study, substantial changes were subsequently made in the reporting responsibilities of overseas posts. Numerous reports were eliminated from the system to allow the posts more flexibility in determining reporting requirements. A minimum number of required reports were retained to supply needed information on country conditions for the Department of Commerce and for industry.

Our discussions with various industry officials revealed that their views toward Foreign Service reporting were essentially the same as those in the above study. In the opinion of these industry representatives, the major shortcoming continues to be that the information is too general to be of much value. Also most company representatives felt that Foreign Service reports should emphasize the developing nations, especially in Latin America.

COMMERCE VIEWS ON FOREIGN SERVICE REPORTS

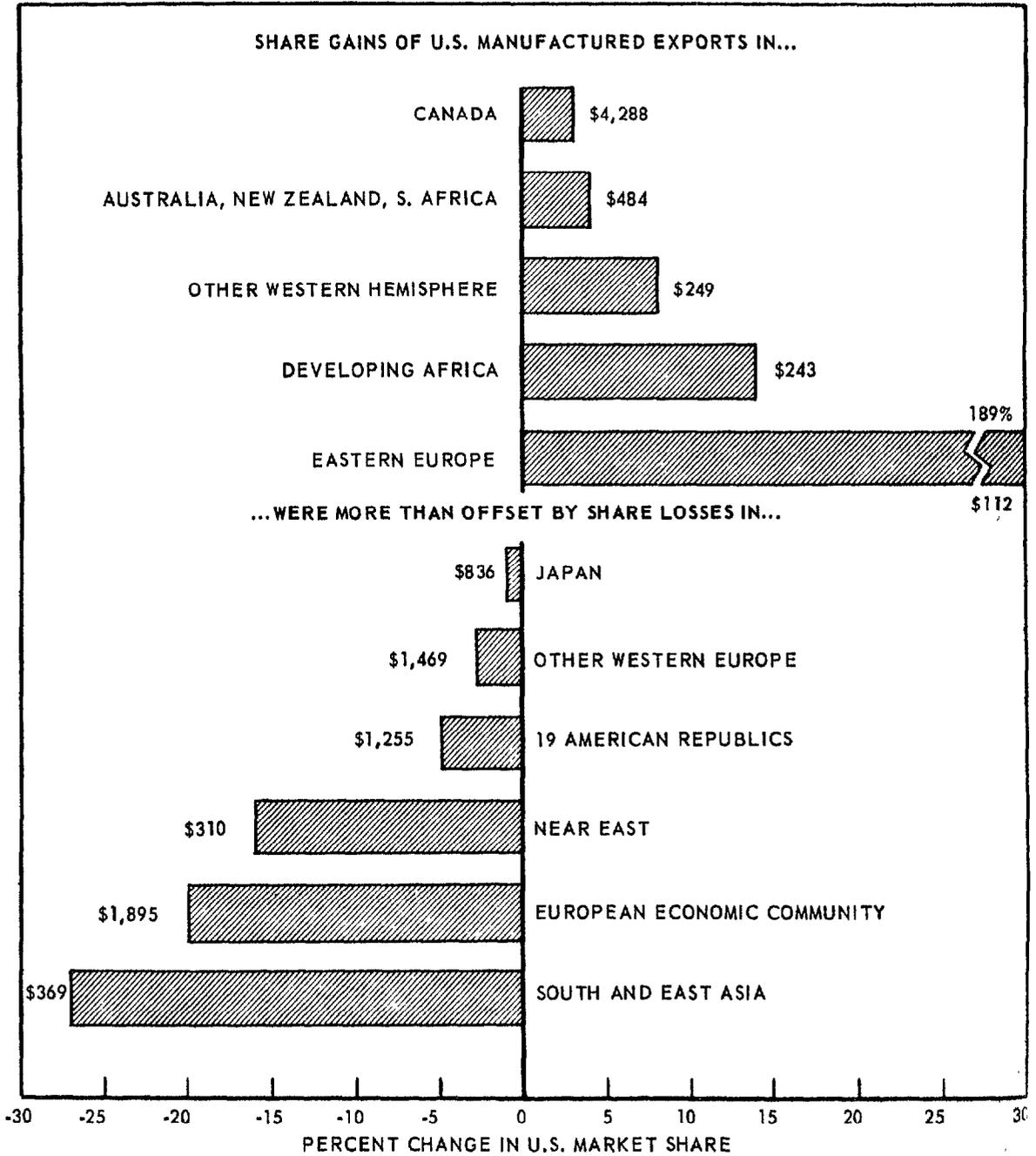
Officials of the Bureaus of Domestic Commerce and of International Commerce indicated dissatisfaction with Foreign Service reports for export promotion purposes. A Bureau of International Commerce official responsible for monitoring foreign commercial reports commented that, for the most part, required reports seldom reflected first-hand observations of reporting officers and contained little information of value to U.S. industry. Regarding unscheduled reports, his opinion was that too few were being submitted.

Bureau of Domestic Commerce industry specialists, responsible for apprising U.S. industry of current developments in overseas markets, viewed both required and voluntarily submitted reports as containing little information of interest to U.S. industry. The specialists also indicated that more information was needed on markets in developing nations. Several Commerce officials said, regarding needed improvements in the quality of reporting, that they were concerned that criticism might lead to a further curtailment of reporting.

We noted that Commerce industry specialists were, for the most part, unaware of the factors affecting the U.S. share of a particular foreign country market for their respective commodities. Although they have access to statistical data which indicates the changing levels of demand for commodities in certain overseas markets, information regarding the underlying reasons for the changes is usually determinable only from specific inquiries and analyses of market conditions from in-country sources.

The following chart shows the percentage of change in the U.S. share of manufactured goods in major market areas, using the 1962-64 period as a basis for comparing 1969 performance. The dollar amounts are increases in U.S. exports expressed in millions of dollars. The chart shows that, in some areas, the United States increased the percentage of its share of the export market but that, in other areas, the United States lost a significant percentage of its share even though there was an increase in dollar value of exports to these areas. Thus the net result for manufactured goods on a world market basis was an increase in U.S. exports but a decrease in the U.S. share of the world market.

**U. S. EXPORTS INCREASE, BUT
POSITION IN WORLD MARKET SLIPS
(COMPARISONS BETWEEN 1962-64 PERIOD AND 1969)**



Source: Prepared By GAO From Department of Commerce Statistical Information

COMMERCE-INITIATED EXPORT STUDIES

Several export-oriented studies have been initiated by Commerce. Although these may contribute toward increasing exports, they are not substitutes for the type of reporting we examined. The fact that the programs discussed below exist indicates the relative importance that Commerce attaches to export expansion efforts.

Special studies by graduate students

To encourage entry of small- and medium-size firms into exporting, the Bureau of International Commerce initiated a program with leading graduate schools of business administration, whereby degree candidates work with small businesses to analyze and decide on appropriate export actions. A participating firm is provided with an international market study describing export opportunities for the firm's products. Each project is tailored to a particular company and is carried out by a master's degree candidate in international business. In fiscal year 1971 some 200 candidates at 21 graduate schools took part in the program. The program evidences the need among small businesses for export market information and analysis. The material provided in the market reports, however, is gathered primarily from published sources and does not contain analysis of factors involving the U.S. market share.

Reports on world market for U.S. exports

Reports on world market exports are condensations of market studies prepared by research firms in connection with the Department of Commerce's Global Marketing Program. The Global Marketing Program is a service of Commerce aimed at helping to increase U.S. exports to \$50 billion a year by 1973. It is a joint Government and business undertaking to initiate export actions on a worldwide basis and covering 2 to 5 years for industries selected as having the highest potential for sustained export increases. The market reports identify products which, Commerce considers, offer the best U.S. export potential for specific foreign markets. Commerce also makes available the actual detailed market study made by the research firm. Each report focuses on one country and one category of equipment. As of June 17, 1971,

world market reports were prepared for six products.¹ The countries reported on to date have generally been the nations of Western Europe. In the June 1971 "Checklist of International Business Publications," 85 world market reports involving 19 countries were listed as being available and 69 of these, or 81 percent, related to markets in Europe, Japan, and Australia.

We believe that the world market reports are useful and should aid potential exporters who manufacture products which have been reported upon. However, the type of products in the reports currently being prepared account for about 10 percent of total U.S. merchandise exports, which suggests that more extensive studies of this type would be beneficial. Although the export potential of these items may be significant on a worldwide basis, there probably are other products not yet identified which may have greater sales potential on an individual country basis. World market reports identify products in which the United States has a competitive advantage. Our study focuses on situations in which the United States faces a loss of its market share and suggests courses of actions to overcome declining exports.

Exhibitors' export market guides

The exhibitors' market guides are prepared in advance of trade center shows, trade fairs, and exhibitions and are designed to stimulate interest in specific events. They provide general descriptions of markets, sales opportunities, international competition, sales approaches, and sales and technical requirements for the market in which the exhibition or trade show is to be held.

As with world market export reports, the exhibitors' guides generally are concerned with markets in the more developed countries because Commerce's promotional efforts

¹The six products are: electronic data processing equipment including peripheral devices and software; food processing and packaging machinery and equipment; pumps, valves, and compressors; instrumentation; air conditioning and refrigeration; agricultural machinery and equipment (less developed countries only).

are directed largely to those areas. For example, of 381 exhibitors' market guides listed as being available as of June 1971, 339, or 89 percent, related to markets in Europe or Japan. We did not attempt to ascertain the various product lines for which such reports were available.

Although overseas posts are encouraged to make market analyses, Commerce does not require information from Embassies or consulates or develop information on its own relating to the specific factors affecting the U.S. share of foreign country markets. Under the Global Marketing Program and the Exhibitors' Export Market Guide, domestically initiated studies have identified a limited number of product lines with high sales potential. Foreign Service commercial reports do not usually analyze and discuss the underlying causes for changes in the U.S. market share in foreign countries to show specific products or identify possible courses of action which industry and/or Government might take to improve the U.S. market position.

We believe that an understanding of the reasons for the loss of foreign markets is basic to formulating any course of action to correct or alleviate adverse factors affecting U.S. trade. We therefore directed our review to the feasibility of developing reports which would give information on the reasons for the loss of markets, steps that might be taken to correct the situation, and other useful information on potential markets for U.S. exports.

In view of the need for and the absence of meaningful reports on market share analysis, we undertook to test the feasibility of analyzing and reporting the kind of market information on which business could act. A case study of Brazil and the results of our review are presented in the following chapter.

Our review also touched on Commerce's procedures for handling reports received from overseas posts. We found no central group having the decision-making authority and responsibility for acting on commercial information reports received from overseas posts. For example, in 1969 the Embassy in the Netherlands initiated several market studies identifying opportunities for U.S. exporters to enter the Netherlands market. These innovative studies were sent to Commerce with

the expectation that files would be searched so that potential exporters might be identified and provided with a copy of the appropriate studies. Instead, these studies were neither effectively acted on within Commerce nor sent to appropriate U.S. firms. We found that the availability of the studies was published in Commerce's Monthly Index of Foreign Production and Commercial Reports. As far as we could ascertain, however, few potential exporters requested these studies; it seems likely that more might have responded had Commerce contacted them.

BEST DOCUMENT AVAILABLE

CHAPTER 3

BRAZIL--A CASE STUDY OF OVERSEAS COMMERCIAL REPORTING

We selected Brazil as a case study for our market share reporting because it is a fast-growing developing country and because the U.S. Embassy in Brazil was the only Foreign Service post to submit commercial reports which attempted to analyze the U.S. market share. The following indicators illustrate Brazil's potential as a market for U.S. products.

1. The import market in Brazil for 1969 was about \$2.3 billion, the largest in Latin America and one of the largest in the developing countries of the world.
2. Brazilian imports increased from about \$1.3 billion in 1964 to about \$2.3 billion in 1969, but the U.S. share of this market during the same period declined from 34.5 percent to about 30.1 percent. Although U.S. exports increased by about \$250 million between 1964 and 1969, the decreasing U.S. market share resulted in a loss of about \$132 million in U.S. export sales.
3. Economic conditions in Brazil are generally favorable, as evidenced by an economic growth rate of 9 percent, one of the highest in the world.

In 1970 the U.S. Embassy and consulates in Brazil submitted 52 scheduled commercial reports to Washington. These included statistical presentations on individual industries and the economy as a whole; reports on recent economic developments; reports on specific subjects, such as one regarding a United States-Canadian woodpulp survey and another relating to Brazilian trade with communist countries; and reports on particular commodities or industries. This latter category included industrial outlook reports,¹ which are the

¹Industrial outlook reports are prepared on the following Brazilian industries: textiles, chemicals, minerals, petroleum, iron and steel, fishing, power equipment, and electronic products and telecommunication equipment.

most comprehensive for information on the market for U.S. exports.

We reviewed these industrial outlook reports prepared by the Embassy and consulates in Brazil and found that they generally needed to:

- Analyze the reasons for the decline in the U.S. share of market.
- Offer meaningful suggestions for U.S. exporters and the Government to increase U.S. exports.
- Discuss those factors affecting the buy decision, such as financing, delivery, and quality.
- Identify the strengths and weaknesses of competition.
- Indicate the effect that specific Brazilian industrial developments could have on the demand for U.S. goods and services.
- Explain fully the implications of the statistical presentations.

The Embassy prepares an annual report entitled "Problems and Prospects for U.S. Trade in Brazil," which shows the trend of total U.S. exports, as well as those of a selected number of product lines. It also explains declines in the U.S. share of the market. Although this report, in our opinion, provides a relatively comprehensive analysis of the U.S. share of the Brazilian market in general, it does not discuss in sufficient detail either the market for specific U.S. products or many of the competitive factors which, we have found, influence the Brazilian importer in his selection of a source of supply.

Our review of unscheduled reports also indicated that few contained information relative to potential markets for specific U.S. products.

In the opinion of officials in the Embassy's commercial office, the current post reporting is not meeting the needs of U.S. industry. In April 1969 the post had prepared and

submitted to the Department of Commerce for comment a number of illustrative reports pinpointing, for certain types of U.S. equipment, the salient reasons for the failure of this equipment to perform better in the market. In commenting on these reports, Commerce officials indicated that the concept of identifying the factors inhibiting product growth had merit but that a more detailed and comprehensive type of presentation would be necessary before incorporating such reports in the formal reporting system could be considered. Although the reporting requirements for Brazil were subsequently revised to permit the preparation of more detailed product studies, the post never undertook the studies.

GAO MARKET SURVEY REPORTS

To improve the U.S. market share reports prepared by the Embassy, we prepared sample market survey reports providing U.S. Government and industry with a comprehensive profile of Brazil's market for selected product lines. We attempted to identify the factors affecting the U.S. market share and, where appropriate, suggested courses of action which Government agencies and/or industry might consider to overcome problems and improve U.S. performance. (See app. I.) The reports were prepared within a limited period by a staff not specifically trained in market analysis, an indication that this type of report could be made by the resident commercial office staff.

Our selection was keyed to product lines for which the United States was losing its market share. We considered the size of the Brazilian market and the number of U.S. firms engaged in manufacturing the product lines. The machine tools survey report is included as appendix II to illustrate the kind of detailed analysis involved in these studies.

These three product lines represented about \$94 million, or about 13 percent, of Brazil's total capital goods imports of \$748 million in 1969. The importance to the American economy of the industries making these product lines is illustrated by the fact that in 1969 they collectively employed about 450,000 persons in about 3,500 companies and their total exports approximated \$1.3 billion.

REACTION OF INDUSTRY REPRESENTATIVES

Industry representatives believed that our market survey reports contained information which would help them increase export sales. Generally they indicated that the reports were more thorough and definitive and, accordingly, more useful than overseas reports currently being received from the Department of Commerce. A number of representatives stated that the type of report we prepared could assist in market penetration, in acting as a check on agents' performances and in determining where sales efforts should be concentrated. We sent our reports to 26 industry representatives, and the following excerpts are illustrative of their comments.

- This type of report would definitely assist in increasing export sales. The total market, future growth areas, market shares, and such allied data would assist in market penetration and product planning. Financing alternatives could be explored to meet European competition. Weak areas in the marketing program would be easier to spot and improve.
- This type of report is very useful in evaluating the market needs and sales possibilities for equipment. It also helps in determining where concentrated sales effort should be stressed to obtain the maximum potential in orders.
- This type of report would be helpful in forecasting demand and in determining potential end users.
- It is difficult to compare this type of report with information currently being received from the Commerce Department because it covers a specific category in a subjective manner and is complemented with statistical data and tables. Commerce's information is general, and specifics must be extracted because it usually is not accompanied by subjective writeups. This type of report contains valuable marketing information that supplements what is already known, and when the two sources are combined the resultant marketing information guarantees more effective sales results.

--Although some of the opinions expressed in the reports may run crosscurrent to experience, they present an opportunity to investigate any point periodically instead of assuming that there has been no change.

A more complete presentation of industry comments is in appendix III.

Although we sought industries' comments on our reports to obtain its reaction to this type of reporting and not to suggest actions, several industry representatives indicated that they contemplated actions on the basis of information contained in our reports. One firm indicated its intention to establish a sales and service office in Brazil, three textile machinery manufacturers indicated that they would consider establishing licensing agreements with Brazilian firms, and an export-house representative stated that the company would obtain additional commitments from clients to support programs designed to increase the availability and quality of service to Brazilian customers.

A manufacturer of scientific instrumentation said that, after reading and analyzing the information contained in our report, he felt his sales should be higher and that he would contact his agent to determine the reasons for his company's poor performance. Another company representative told us that, although our report had "not been the reason we are considering changing distributors, it has caused us to realize that some action is long overdue and we intend to rectify this situation." A number of representatives said that they would forward our reports to their Brazilian agents for consideration.

Of the 26 industry representatives contacted, 21 indicated that they would like to receive similar reports relating to markets in other countries and most frequently mentioned the developing countries, especially those in Latin America.

Most of the industry representatives said that they would be willing to pay from \$10 to \$50 for reports containing the kind of information in our market survey reports.

REACTION OF COMMERCE OFFICIALS

Commerce reaction to our survey reports was generally favorable. A number of officials indicated that GAO-type reports would be helpful in developing interest among U.S. businessmen in overseas markets and in keeping existing exporters informed of market conditions and up-to-date developments affecting sales. Other Commerce officials stated that:

"The information contained in the GAO surveys is definitely the type which should be coming out of overseas posts. [Reports of the type developed by GAO] are far more apt to be of interest to industry than the current post reports."

"To the extent that commodity reporting still exists or that its volume is increased in the future, posts would do well to adopt the commercial approach which you [GAO] have followed so well in your Brazilian studies."

"The vivid discussion of competitive conditions in the surveys gives a good feel for the market and should be greatly appreciated by businessmen. Equally good and highly useful are the findings and recommendations regarding approaches to be used by U.S. businessmen in penetrating the market. These aspects are seldom as well covered in the market surveys which are being done under the existing DOC [Department of Commerce] program."

BEST DOCUMENT AVAILABLE

CHAPTER 4

CONCLUSIONS, AGENCY COMMENTS AND OUR EVALUATION, AND RECOMMENDATIONS

CONCLUSIONS

The importance of commercial reporting has been stressed by the National Export Expansion Council, the Department of Commerce, and industry representatives.

We found that regularly scheduled Foreign Service commercial reports did not contain information on the underlying reasons affecting the U.S. share of foreign country markets. Government and business officials contacted agreed that existing reports lacked much of the detail and analysis necessary to U.S. exporters. Our examination of commercial reports prepared by the U.S. Embassy and consulates in Brazil confirmed the need for improving Foreign Service commercial reporting.

We used Brazil as a case study in preparing sample market survey reports for three product lines and industry representatives and Commerce officials reacted to the reports favorably. There seems to be good potential for the present reporting system to become more effective in promoting increased U.S. exports.

We conclude that it is both feasible and desirable to analyze and report reasons for the loss of U.S. market shares so that Government and industry can consider steps to enhance the U.S. position in given market areas. The fact that these reports were prepared by GAO staff not specifically trained in market analysis indicates that similar reports could be prepared by resident commercial office staffs overseas.

The usual reasons advanced for the loss of U.S. market shares, such as higher prices and lack of financing, are not the only factors considered by prospective buyers. Our studies showed that other factors, such as servicing, delivery terms, and product quality, frequently were key determinants in buy decisions. It is desirable to establish

a method of reporting which identifies the causes and suggests remedial actions.

There are no ready answers concerning the reporting frequency, countries or products to cover, or who should prepare the reports. Commercial officers, marketing research firms, or Commerce people detailed in-country are possibilities that Commerce and State might consider. We do not suggest that the format used in our reports is necessarily the one which should be adopted. Undoubtedly, a more refined format can be developed by experts familiar with commercial-reporting techniques.

AGENCY COMMENTS AND OUR EVALUATION

A copy of our draft report was sent to Commerce and State for comments, and both were in substantial agreement with our findings and recommendations.

Department of State

State advised us that the report recommendations were compatible with existing instructions to overseas posts on commercial reporting. It stated that detailed sector analysis was within the potential capabilities of current commercial staffs but that how to direct these energies to elicit the desired analyses was a problem.

State felt, however, that our report overemphasized the importance of commercial reporting to increased U.S. exports in view of such other, broader considerations as monetary exchange rates and tariff barriers affecting the trade deficit.

Department of Commerce

Commerce replied that it hoped the operational implications of our study could be made effective. It wished to see wider coverage in analytical studies and planned to undertake comparative studies of key product lines in world markets.

Commerce said our studies demonstrated that analytical reporting was desirable and that properly motivated personnel,

with appropriate guidance, would be capable of preparing useful reports explaining the decline of U.S. market shares and suggesting appropriate remedial actions. It believed that the report focused too much on declining market shares for analysis purposes and noted the value of similar analyses of situations where the U.S. market share was expanding.

Commerce pointed out that the Office of Management and Budget was studying the adequacy of overseas Government support for commercial activity. It felt that the study may well reveal the extent to which further specialized market analysis by Foreign Service officers could be relied on and that staffing and funding considerations would substantially affect the extent of any increase in analytical reporting.

RECOMMENDATIONS

The Secretaries of State and of Commerce should expand on our studies, with a view to refining them and to establishing guidelines for this type of commercial reporting. Specifically, studies of this type should:

- Identify product lines and market factors affecting U.S. exports.
- Suggest actions for U.S. Government agencies and industry to take to improve the U.S. overseas market position.
- Provide U.S. industry with the type of information to most assist in increasing exports.
- Establish a focal point in Washington, D.C., to ensure that reports are disseminated quickly to Government agencies and industry groups able to act on the information.

We recognize that, due to the numerous market areas and product lines susceptible to examination, reporting must be selective.

- In identifying products, consideration should be given to the size of the potential market, the U.S.

market share, and the product's importance to the U.S. economy.

--In selecting the foreign country markets, the potential for increasing U.S. exports should be of primary concern. Industry representatives stressed the need for information on markets in developing countries.

BEST DOCUMENT AVAILABLE

CONTENTS OF MARKET SURVEY REPORTS

Background--presents statistics showing the present level of imports, the U.S. market share, and a summary of the major types of equipment within the product line which make up the majority of imports. We also show which countries offer the strongest competition.

Potential demand--provides a brief analysis of import trends for the past few years. It discusses future plans of major industrial end users of the product line and, where applicable, indicates governmental plans or incentives which could influence the industry's development. The section is intended to provide the businessman with an indication of future trends and developments which could affect sales of his products.

Observations--discusses the results of interviews with end users, agents, and other groups involved in the sale or purchase of the product line and presents the consensus regarding those factors influencing the customer's decision as to source of supply. Quality, pricing, delivery, and service are discussed; and the relative importance of each in the buy decision is indicated. Other factors affecting sales of the product lines are also noted.

We also indicated industrial groups which were the largest users of the product line, the types of U.S. equipment having a competitive advantage, and the level and extent of in-country production and its consequent effect on imports.

Summary of data on specific pieces of equipment--discusses the market potential for various types of equipment included within the general product line.

Possible Government and industry actions to consider--presents suggested courses of actions by U.S. Government agencies to assist U.S. firms in exporting. It suggests actions for U.S. firms to take to improve sales of their products.

APPENDIX I

The suggestions and considerations proposed in the sample survey reports are not intended to be a complete presentation of all the courses of action available nor do we endorse all the measures. The types of conclusions reached are illustrative of, and should not be construed as firm statements of, GAO positions.

BEST DOCUMENT AVAILABLE

MACHINE TOOLS SURVEY REPORT

BACKGROUND

The import market for machine tools in Brazil amounted to a record \$41.8 million in 1968; \$34.9 million in 1969; and \$8.1 million in the first quarter of 1970, an increase from \$6.2 million for the first quarter of 1969. The United States had 29 percent of this market in 1968 and 25 percent in 1969. In the first quarter of 1970 its share was 17 percent.

The U.S. share of the import market depends to a large extent on the expansion activities of subsidiaries of U.S. automotive firms. Brazil is currently among the 10 top automobile-manufacturing countries in the world. It produced an estimated 400,000 vehicles in 1970. Volkswagen enjoys 56 percent of this production and major U.S. firms account for about 38 percent; Ford 18 percent, General Motors 17 percent, and Chrysler 3 percent.

Analysis of Brazilian import statistics for 1968 and 1969 revealed that the following types of machines accounted for about 75 percent of machine tools imports: (1) grinding machines, (2) lathes, (3) milling machines, (4) drilling machines, (5) stamping presses, and (6) bending presses. During 1969 U.S. manufacturers supplied about 23 percent of the total Brazilian imports of these six items. (See p. 39.) for a listing of Brazilian imports of machine tools by type.)

West German suppliers are the chief competition for U.S. machine tool exporters. For 1967, 1968, and 1969, West Germany's share of Brazil's import market for machine tools was 51 percent, 36 percent, and 45 percent, respectively. (See p. 40.)

POTENTIAL DEMAND

The demand for machine tools in Brazil has increased substantially during the past 5 years. In 1965 imports of such tools amounted to \$13 million, and by 1969 they had increased to \$35 million, about 170 percent. Future demand for imported machine tools should remain strong, in the light of anticipated expansion of major

APPENDIX II

automobile-manufacturing firms. Both General Motors and Ford plan to produce a small car in Brazil, and each estimates the required investment at about \$100 million. In addition, Chrysler plans to manufacture a small car in Brazil and has estimated the necessary investment at about \$30 million.

The Brazilian automotive industry has developed horizontally, in line with Government policy. The automotive manufacturers produce engines and frames and assemble the finished product; however, they must depend on suppliers for other components. General Motors alone has over 2,000 suppliers. In addition, about 98 percent of the parts used in automobile manufacturing are of Brazilian origin. Any increase in production by the major auto manufacturers will thus require expansion on the part of their suppliers.

Firms importing machine tools into Brazil are eligible for various Government incentives. If the project is approved by the Commission for the Development of Industry the following incentives apply: (1) partial or total exemption from import duties and (2) elimination of the imported-products tax. There are no prohibitions on the import of any type of machine tool. Import duties range from 15 to 55 percent. In addition, there is the imported-products tax of from 5 to 8 percent. The import duties and the imported-products tax are applied to the cost, insurance, and freight value of the item. The higher import duty and imported-products tax rates are applied to those types of imported machines which are also manufactured locally. Also the incentives generally apply only to imported machines which are not produced locally. Local production is held to exist when the local item is similar in quality and specifications and can be delivered within a reasonable time.

BEST DOCUMENT AVAILABLE

OBSERVATIONS

1. Motor vehicle manufacturers and their suppliers account for about 90 percent of Brazil's machine tool imports, and automotive manufacturers show a preference for machine tools produced in their own countries. Other end users include vocational training institutions and the steel, textile, shipbuilding, and machine tool industries.

2. Price differential constitutes the single most important factor inhibiting the growth of U.S. machine tool exports to Brazil. U.S. machinery is about 35 percent higher in price than that of Western European origin. The price differential is even greater with respect to Eastern European or Soviet equipment. However, because of the relatively poor quality and the low level of sophistication of the Eastern European equipment, it does not present a serious competitive threat to U.S. manufacturers.

3. Although U.S.-built machine tools are generally considered superior to those of other countries because of their quality, longer life, higher productivity, and ability to operate for extended periods of time, the price differential is of such magnitude as to offset these advantages.

4. The consensus is that U.S. machine tool manufacturers cannot expect to reverse the loss of market share in Brazil until their prices are within 10 to 15 percent of those of competitors. A number of U.S. machine tool manufacturers have recognized price as a major problem and have reacted by locating manufacturing operations in third countries, allowing them to offer the Brazilian importer lower prices. For example, a British subsidiary of a leading U.S. manufacturer offers a machine tool at a price 33 percent below the price of a similar tool manufactured by the parent company.

5. When Brazilian firms purchase U.S. machine tools to any great extent, the reasons for the purchases can be generally categorized as follows:

- a. The company is a subsidiary of a U.S. corporation.
- b. Technical direction for the facility is in the hands of a North American.

APPENDIX II

c. The desired machine is manufactured only in the United States.

6. The smaller machine shops in Brazil do not constitute markets for U.S. machine tool manufacturers. These small establishments do not require the advanced technology which characterizes U.S. equipment, and their import needs, for the most part, are satisfied by Eastern European countries.

7. The servicing and repairing of U.S. machine tools and that of other suppliers were generally cited as problem areas. Specifically, end users and agents stated that there was a shortage of spare or replacement parts. Increasing stocks of such parts is a possible solution, but end users and agents consider this impractical.

8. A change in Brazilian import procedures, effective September 1, 1970, removed the necessity of obtaining a permit for import of spare parts when the value of the shipment was less than \$2,000. As a result, deliveries of U.S. spare parts, which previously took about 5 months, are now reported to take about 2 weeks.

9. The delivery performance of U.S. manufacturers is better than that of competitors. Nevertheless, this rarely affects the buy decision, since the major considerations continue to be quality and price. It is worthwhile to note, however, that one of the leading agents for machine tools in Brazil informed us that deliveries on German equipment took about 14 months and were expected to take even longer in the future. Further, a number of end users indicated that, in the case of large purchases, if deliveries could not be made within 15 months, a new source was considered.

10. Financing is not a problem or a major factor in the decision to buy U.S. machine tools. The importers are usually large firms, such as subsidiaries of U.S. companies, and they have little difficulty in arranging requisite financing.

11. One of the leading agents for machine tools in Sao Paulo indicated that more sophisticated, high-priced automated equipment is now being sold by his firm, and he expects

sales of such equipment to increase. He stated that he had sold expensive U.S. automated machine tools, and he expected an increase in this trend. He indicated that the prices of German tools were increasing at a faster rate than those of U.S. manufacturers, and it was his opinion that within 5 years prices of United States and European machine tools would be comparable.

12. An agent for a number of U.S. machine tool manufacturers informed us that many of the automotive industry's parts suppliers initially purchased their machine tools from Eastern European countries because of lower prices and more favorable financing terms. He stated that many of these machines were obsolete, however, and would have to be replaced within the next few years. It is the consensus of those in the trade that, because of the poor performance of this equipment, replacement will come from either Western European or United States manufacturers.

13. It is estimated that local manufacturers supply about 40 percent of the total value of machine tools used annually in Brazil. National production is reported to be confined to the manufacturing of the more conventional lightweight, low-unit-price machines.

APPENDIX II

SUMMARY OF DATA OBTAINED ON SPECIFIC MACHINE TOOLS

There is a good opportunity for U.S. firms to sell the following machines in Brazil.

1. Gear cutters--competition can be expected from the Soviet Union. This is one of the few machines it is doing well in exporting. About 100 of these machines are imported a year.
2. Gear grinders--this is one of the few machines in which United States prices are competitive with those of Western European suppliers.
3. Broachers--in 1969 U.S. suppliers accounted for about 83 percent of the imports of this item. Although at present it is a small import item (about 1 percent of machine tool imports and only 20 units per year), the market is reported to be expanding.
4. Hydraulic tracer milling machines--they are considered to be a good prospect for U.S. firms. One agent reported that a U.S. firm was selling several of these machines a year.
5. Numerically controlled machine tools--the consensus among end users and agents in Brazil is that numerically controlled machine tools offer the best long-range opportunity for increasing U.S. exports of machine tools. Brazilian industry is not yet considered to have reached the stage in which volume sales of this type of equipment can be expected; however, it is estimated that in 2 to 5 years sales should increase.
6. High production machine tools--all varieties are considered to offer good long-run potential for U.S. companies. An agent stated that Brazilian firms, as they continued to develop, would require, and would be willing to pay for, quality machines which would operate 24 hours a day at high speeds.

There is a limited opportunity for U.S. firms to sell the following machines.

1. Universal grinding machines--Brazilian import demand has been about 150 machines a year. There is some local production along with strong Western European competition.
2. Automatic milling machines--there have been about 150 of these machines imported a year. Competition can be expected from an English subsidiary of a major U.S. manufacturer.
3. Presses--local production of presses (by subsidiaries or licensees of German and United States firms) confines imports to only high-tonnage presses. Manufacturers are reported to produce 2,000-ton presses locally.
4. Cold-stamping machines--although in-country production exists (subsidiary of a West German firm), there still is a market for U.S. machines.
5. Radial drills--U.S. subsidiaries in Brazil will purchase from the United States. The majority of machinery, however, comes from Eastern Europe due to a price advantage.
6. Vertical milling machines--there is some Brazilian manufacturing. Eastern bloc (Czech) prices are less than one-third the United States price; however, these countries have a reputation for poor technical assistance and delivery.
7. Vertical lathes--the Soviet Union is a major competitor in the sales of vertical lathes, because their prices are about one-half the prices of U.S. lathes.

There is a poor opportunity for U.S. firms to sell the following machines.

1. Surface grinders--substantial local production and Eastern bloc and Italian competition, coupled with

a low level of sophistication, inhibits the growth of U.S. sales.

2. Cylindrical grinders--local production and high U.S. prices make sales of this type of U.S. machinery difficult.
3. Centerless grinders--local production of machines up to 4 inches in diameter, coupled with competition from Swedish and United States subsidiaries in third countries, inhibits U.S. sales.
4. Hydraulic presses--they are manufactured locally by a German firm.
5. Tapping machines--most types are manufactured locally. In 1968, 91 tapping machines were manufactured in Brazil.
6. Column drills--substantial local and West German competition inhibits U.S. sales.
7. Mechanical presses--they are manufactured locally.
8. Slotting machines--there are few sales of these machines in Brazil; these machines are considered obsolete.
9. Internal thread grinders--Brazilian demand is estimated to be between 12 and 20 a year, with many of these machines coming from Western Europe. There are reported to be five good manufacturers of this machine, four located in Europe and one in the United States.
10. Lathes (other)--hydraulic copying lathes are being manufactured locally, with strong competition for the import market coming from the Swiss. Automatic lathes are being manufactured locally by a West German firm which is supplying about 80 percent of the local market. Engine lathes are manufactured locally; in fact, one Brazilian firm is reported to be exporting to the United States.

POSSIBLE GOVERNMENT AND INDUSTRY ACTIONS
TO CONSIDER

The overriding reason, and the one that must be dealt with to effect any substantial influence on the loss of the U.S. market share, is the differential between the cost of machine tools manufactured in the United States and the cost of those manufactured in Western Europe. Because of the differential, some U.S. manufacturers have resorted to locating their production facilities in lower labor cost third countries to serve the Brazilian market. Further analysis is needed to identify the specific cost elements making up the differential. Assuming, however, that the differential is basically one of labor cost, it appears that industry should seek ways to minimize the labor content of the end item by more effective and efficient use of production facilities. Some sort of governmental incentives or subsidies will tend to offset the higher labor cost, but these actions involve considerations of complex issues of national policy.

When a reduction in price has been considered, it appears that the other alternatives, although of far less importance, are for U.S. industry to (1) improve service to the customers, (2) increase, or be more aggressive in, their sales efforts, and (3) improve delivery times.

Service appears to be a factor in the buy decision which U.S. firms are in a position to improve. By so doing, U.S. firms may increase the likelihood of additional U.S. machine tool sales. The lack of technical assistance was not noted as a major problem, but the time required to obtain spare parts was. Solving this problem would make the purchase of U.S. machinery more attractive. One method which could be explored is locating bonded warehouses within Brazil from which faster service could be provided for spare parts needs.

Indications are that United States agents are not as aggressive as the agents and representatives of West German suppliers and that agents for West German firms seem to have a closer relationship with their principals. The latter statement was prompted by the apparent ability of West German agents to confirm orders in a shorter time than their United States counterparts. This appears to be a problem that industry can overcome with appropriate attention.

APPENDIX II

Delivery of U.S. machinery is satisfactory and well within the 15-month critical period. On the basis of statements by end users, reconsideration of a source of supply for large purchases would not take place unless deliveries took more than 15 months. Accordingly, shorter delivery time would help somewhat but probably would not result in any substantial increases in machine tool sales.

BEST DOCUMENT AVAILABLE

APPENDIX II

BRAZILIAN IMPORTS OF MACHINE TOOLS

BY TYPE (note a)

Type	1968			1969			Jan.-Mar. 1970		
	World	U.S.	U.S. percent	World	U.S.	U.S. percent	World	U.S.	U.S. percent
	(000 omitted)			(000 omitted)			(000 omitted)		
Tools	\$ 5,038	\$ 1,443	28.6	\$ 4,570	\$ 1,012	22.1	\$ 955	\$ 211	22.1
Grinders-filers	983	210	21.4	425	54	12.7	87	21	24.1
Grinders	494	285	57.7	223	184	82.5	21	-	-
Grinding-machine tools	416	141	33.9	380	214	56.3	36	25	69.4
Grinding tools	6,512	1,309	20.1	4,505	978	21.7	1,929	339	17.6
Drilling machines	7,137	2,554	35.8	4,444	1,196	26.9	673	74	11.0
Drilling machines	4,855	372	7.7	4,703	765	16.2	203	-	-
Machinery for turning the ends of metals (bending presses)	3,889	1,508	38.8	3,522	1,232	35.0	1,102	165	15.0
Turning machines	264	45	17.0	563	262	46.5	82	21	25.6
Grinding-cutting machines	307	90	29.3	473	290	61.3	94	58	61.7
Grinding-cutting machines	111	41	36.9	460	320	69.6	282	-	-
Grinding, blanking-out machines (abrasive cutting and milling machines)	1,207	606	50.2	948	151	15.9	248	15	6.0
Grinding machines	4,773	1,076	22.5	4,773	970	20.3	1,664	214	12.9
Tools and accessories	1,305	499	38.2	2,260	767	33.9	462	161	34.8
Hand-working machine tools, other	4,488	1,889	42.1	2,667	444	16.7	299	100	33.4
Total	\$41,779	\$12,068	28.9	\$34,916	\$8,839	25.3	\$8,137	\$1,404	17.3

Figures rounded to nearest tenth

Source: Brazilian import statistics, 1968, 1969, 1970

BEST DOCUMENT AVAILABLE

APPENDIX II

BRAZILIAN MARKET SHARES FOR IMPORTED

MACHINE TOOLS (note a)

	1965 (000 omitted)	Per- cent	1966 (000 omitted)	Per- cent	1967 (000 omitted)	Per- cent	1968 (000 omitted)	Per- cent	1969 (000 omitted)	Per- cent
Total imports from the world	\$12,998		\$20,689		\$25,115		\$41,779		\$35,023	
United States	2,050	15.8	3,927	19.0	5,297	21.1	12,069	28.9	8,841	25.2
Germany	5,527	42.5	9,758	47.2	12,818	51.0	14,988	35.9	15,607	44.6
Italy	825	6.3	1,252	6.1	1,404	5.6	1,986	4.8	1,769	5.1
Switzerland	678	5.2	655	3.2	508	2.0	713	1.7	1,727	4.9
United Kingdom	448	3.4	414	2.0	1,089	4.3	2,048	4.9	1,291	3.7
France	64	.5	1,199	5.8	927	3.7	2,009	4.8	495	1.4
Sweden	523	4.0	953	4.6	231	.9	843	2.0	754	2.2
Japan	178	1.4	273	1.3	392	1.6	385	.9	307	.9
Netherlands	223	1.7	335	1.6	203	.8	362	.9	296	.8
Other Countries	2,482	19.1	1,923	9.3	2,246	8.9	6,376	15.3	3,936	11.2

^aRounded to nearest tenth

Source: Department of Commerce country series report, Brazil (1965-69)

BEST DOCUMENT AVAILABLE

COPY
COMMENTS OF INDUSTRY REPRESENTATIVES

- ***We believe this type of report will materially assist us in increasing export sales. By following the suggestions outlined in such reports, we are convinced that sales of quality products from the United States can be made. It is our intention to implement some of the suggestions made in your report within the capabilities of our own organization and those of the manufacturers we represent.*** I personally feel this is the best type of report I have read on a specific marketing problem in a country. Those presently received from the Department of Commerce are too theoretical and are often only published at a time when a [trade] fair is to be held or [Trade] mission is to visit the country.
- Your grass roots approach gives us a better feel for the problems of doing business in Brazil than what we have been able to obtain either from our distributor or through personal observations.
- I sincerely hope that your proposals for utilizing this type of reporting for specific products in certain areas of the world are followed.
- Our company will take specific action by working closely with its appointed distributors in Brazil to insure that they follow the recommendations made in your report toward better servicing and more active solicitation of orders.
- The report has a very readable format and is very concise and to the point.
- Reports such as GAO's are more specific than existing Government reports and because the latter are more general; it is difficult to extract information from them which may be applicable to our own industry.
- The report is good as it gives us a better way to assess our in-country representation. We will send a copy of this report to our Brazilian agent and ask him to comment on it.
- The GAO report is far more complete and more to the point than any reports we get from other Government sources, and it zeroes in on the problems that we are concerned with.

BEST DOCUMENT AVAILABLE

APPENDIX III

- This type of report would be very helpful as it pinpoints the problems in development sales overseas better than any such Government reports that I have seen.
- I would like to receive many more of this type of report.
- This is a very good and timely report and it is more valuable than what we are currently receiving from the Department of Commerce.
- This type of information would assist us greatly in increasing our export sales.
- This report was better than anything we are getting from Commerce or any Government sources. The information I currently receive from Government sources--is too general and of little use. One of the most important things to be included in a report such as yours is competitive market factors and GAO did a good job in covering this area.
- This is the type of report we would like to receive more frequently from the Department of Commerce and on which we will take certain immediate action.
- I can't think of any additional information which should be added as the report is very well done.
- Government reports deal more with political aspects and broad economic philosophies. U. S. Government reports shy away from naming specific names of companies involved on particular kinds of projects.
- The report should be specific in its approach. The report in Brazil was fairly good from that angle; but the tendency in this type of report as it progresses is to get less and less specific, and this is wrong.
- There is not, to our knowledge, any Commerce report or publication that provides as detailed information concerning the specific market background, observations, recommendations for government and private industry or as detailed analysis of imports by specific products and U. S. market share.
- This type of report, if it covers the type of equipment we manufacture, could assist us in our export sales by improving our knowledge of the markets and sales potential for our products in industrially developed and developing countries. With such information, more realistic, appropriate, and effective marketing plans and methods can be developed and implemented to take advantage of the export sales opportunities available to us. We believe this type of report/survey will provide valuable additional information to those manufacturers whose products are included in the survey.

- This report would help some, mainly as a good check on reports from our agents in a particular country.
- This type of report is good as it provides us with an insight into the market and allows us to set strategies to penetrate the market.
- The potential demand section is helpful and can provide lucrative sales leads.
- We feel that this type of report is beneficial and would appreciate receiving copies of all future reports.

BEST DOCUMENT AVAILABLE

U.S. SHARE OF WORLD EXPORTS OF MANUFACTURES

Adjusted for seasonal variation

Commodity		U.S. exports (million dollars)	U.S. share (% of world exports to foreign markets ¹)	Commodity		U.S. exports (million dollars)	U.S. share (% of world exports to foreign markets ¹)
Manufactures, total				Electric machinery			
1968	1st qtr.	5,535	22.9	1968	1st qtr.	542	24.8
	2nd	5,928	24.5		2nd	571	26.2
	3rd	6,462	24.3		3rd	605	25.4
	4th	6,235	22.8		4th	586	24.2
1969	1st	5,842	21.1	1969	1st	592	23.9
	2nd	6,925	23.1		2nd	687	25.2
	3rd	7,142	23.1		3rd	724	25.1
	4th	7,224	22.5		4th	698	23.6
1970	1st	7,349	22.2	1970	1st	721	23.4
	2nd	7,577	21.6		2nd	754	22.6
	3rd	7,439	21.3		3rd	768	22.6
	4th	7,424	20.5		4th	796	22.5
1971	1st	7,830	21.1	1971	1st	769	22.0
	2nd	7,694	20.3		2nd	738	20.8
	3rd	8,273	20.6		3rd	823	21.4
Chemicals				Transport equipment			
1968	1st qtr.	751	23.6	1968	1st qtr.	1,357	33.6
	2nd	812	25.1		2nd	1,441	35.0
	3rd	920	25.3		3rd	1,508	34.7
	4th	812	22.7		4th	1,594	33.9
1969	1st	662	18.8	1969	1st	1,616	33.0
	2nd	904	23.5		2nd	1,665	33.1
	3rd	902	22.4		3rd	1,659	32.3
	4th	915	22.3		4th	1,643	31.3
1970	1st	1,007	23.6	1970	1st	1,608	30.6
	2nd	967	22.0		2nd	1,828	31.4
	3rd	930	21.2		3rd	1,565	28.6
	4th	942	20.9		4th	1,545	25.8
1971	1st	937	20.5	1971	1st	2,037	31.6
	2nd	960	20.3		2nd	2,095	31.3
	3rd	1,202	23.4		3rd	2,016	29.3
Nonelectric machinery				Other manufactures			
1968	1st qtr.	1,487	28.8	1968	1st qtr.	1,398	14.6
	2nd	1,565	30.6		2nd	1,539	16.1
	3rd	1,699	30.3		3rd	1,730	16.4
	4th	1,613	28.1		4th	1,630	14.9
1969	1st	1,506	27.0	1969	1st	1,466	13.1
	2nd	1,842	29.4		2nd	1,827	15.1
	3rd	1,905	29.2		3rd	1,952	15.8
	4th	1,963	29.2		4th	2,005	15.4
1970	1st	2,010	28.8	1970	1st	2,003	14.8
	2nd	2,024	27.5		2nd	2,004	14.1
	3rd	2,216	29.2		3rd	1,960	13.8
	4th	2,225	27.5		4th	1,916	13.6
1971	1st	2,227	27.6	1971	1st	1,860	12.9
	2nd	2,064	25.3		2nd	1,837	12.4
	3rd	2,251	25.9		3rd	1,981	12.7

Note: The figures for the first two quarters of 1969, and the second and third quarters of 1971, were affected by a U.S. longshoremen's strike. The term "manufactures" refers to chemicals, machinery, transport equipment, and other manufactures except mineral fuel products, processed food, fats, oils, firearms of war, and ammunition. U.S. exports include reexports in order to provide data comparable with other countries' exports.

¹ World exports are defined as exports from 14 major industrial countries. These nations, which account for approximately four fifths of world exports of manufactures to foreign markets, are United States, Austria, Belgium, Luxembourg, Canada, Denmark, France, Federal Republic of Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, and Japan. Exports to foreign markets are total exports excluding exports to the United States.

Source: Department of Commerce Publication, *Commerce Today*, March 6, 1972.



DEPARTMENT OF STATE

Washington, D.C. 20520

7 MAR 1972

Mr. Oye V. Stovall
Director
International Division
United States General Accounting Office
441 G Street, N.W.
Washington, D. C. 20548

Dear Mr. Stovall:

Attached are our comments on your recent study, "Opportunity for Increasing Exports Through Improved U.S. Market Shares Analysis". The Department appreciates the constructive criticism offered for the improvement of commercial reporting. As you know, both the State Department and the Commerce Department are deeply concerned with finding ways to make the entire commercial program more responsive to the needs of business.

I understand that you will be issuing reports on other aspects of the commercial program and we look forward to receiving your views as they become available.

Sincerely,

Richard W. Murray
Richard W. Murray
Deputy Assistant Secretary
for Budget and Finance

Attachments:
As stated.

BEST DOCUMENT AVAILABLE

APPENDIX V

Comments on GAO Study, "Opportunity for Increasing Exports Through Improved U.S. Market Shares Analysis and Reporting"

This study raises anew the issue of how to make commercial reporting more responsive to the needs of government and business.

Before addressing the substance of the GAO report, it is necessary to place the commercial reporting function in its proper perspective. As if to dramatize the importance of commercial reporting, the GAO study began with remarks about the deterioration of our overall trade balance. While commercial reporting can be an important source of information for U.S. exporters, certainly its potential effect on U.S. trade is minor at best. In its failure to note such factors as exchange rates and tariff barriers to explain the trade deficit, the GAO study overstates the actual importance of commercial reporting. Furthermore, the assertion that the decline in the U.S.'s share of world exports from 1960-1970 "calculates to a loss of about \$6 billion in 1970 exports, and about 400,000 lost job opportunities" is open to question. Apart from exchange rate distortions and tariff barriers which have dampened the growth in U.S. exports, the decline in our share of the world market is also due in large part to the inevitable recovery of Western Europe and Japan from World War II. As the study shows, U.S. exports actually increased in absolute value by \$23 billion during that same period (Thus export created additional jobs).

The GAO study identifies as major shortcomings of commercial reporting:

1. Lack of specificity in pinpointing product lines and country market factors that affect U.S. exports;
2. Lack of concrete recommendations for government and industry to improve the U.S. position;
3. Failure to provide business with the data and analysis that they require for marketing decisions.

APPENDIX V

In its case study of overseas commercial reporting in Brazil, GAO devised sample reports to illustrate the type of presentation which would be more useful for government and industry planning. The report format includes market analysis, projection of potential demand, summary of data on specific pieces of equipment, and suggested courses of action for government and business. Indeed, these recommendations on reporting are fully compatible with State Department airgram CA-3732 of July 1, 1969, "Guidance for Reporting on Overseas Trade and Investment" (copies of this and two related airgrams are attached). Since 1968, scheduled reporting requirements for economic/commercial officers have been cut by 50% in order to free staff officers for higher priorities, including the kind of alert reporting of market opportunities called for by GAO and CA-3732.

[See GAO note.]

Such detailed sector analysis is within the potential capabilities of current commercial staffs overseas. The problem is how to direct their energies and elicit the desired detailed analysis. Implicit in the GAO study is the need for the State Department and Commerce Department to coordinate closely in the levying of workload demands on foreign commercial staffs. In the case of reporting requirements, these demands should be specific and tailored to the needs of both government and business.

In this regard, the Inspector General of the State Department is reviewing the entire commercial function in the State Department. The President has also directed the Office of Management and Budget to conduct a comprehensive study of the commercial program. GAO's survey of the reporting function is an important contribution to the overall review of the government's commercial activities.

GAO note: Airgrams not included in final report by GAO.

BEST DOCUMENT AVAILABLE

APPENDIX VI



THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

April 7, 1972

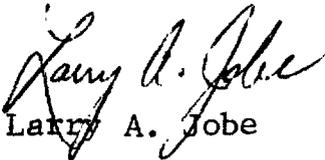
Mr. Oye V. Stovall
Director, International Division
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Stovall:

This is in reply to your letter of December 13, 1972, requesting comments on a draft report entitled "Opportunity for Increasing Exports Through Improved U.S. Market Shares Analysis and Reporting."

We have reviewed the comments of the Bureau of International Commerce and believe that they are appropriately responsive to the matter discussed in the report.

Sincerely yours,


Larry A. Jobe

Attachment

BEST DOCUMENT AVAILABLE

BIC COMMENTS ON THE DRAFT OF A REPORT TO THE CONGRESS

OPPORTUNITY FOR INCREASING EXPORTS
THROUGH IMPROVED U.S. MARKET SHARE
ANALYSIS AND REPORTING

DEPARTMENT OF COMMERCE

DEPARTMENT OF STATE

March 10, 1972

BEST DOCUMENT AVAILABLE

S
255

APPENDIX VI

BIC' Comments on the Draft of a Report to the Congress

Opportunity for Increasing Exports Through Improved U.S. Market Shares Analysis and Reporting

Summarized Comments

BIC is gratified that the proposed GAO report so clearly recognizes the great importance of detailed analytical reporting by the Foreign Service concerning changes in U.S. shares of overseas import markets. We feel that the identification of product lines for which the U.S. share is declining is important so that efforts can be made to reverse the trend. Field suggestions as to how that trend can be reversed will also be of great value. Of equal importance, we believe, would be the identification of product lines for which demand is increasing so that U.S. supply leadership may be firmly established. We would hope that the operational implications of the GAO study can be made effective, but we would like to see even more progress in this area of activity and plan to undertake comparative studies of key product lines. Such studies would not only cover the comparative demand for U.S. and non-U.S. competitive products in overseas markets, but would also take account of the penetration of the U.S. market by such products if they compete directly in our domestic market. Such analysis may show us where substantial comparative foreign advantage would justify a decision to shift export promotion efforts to other U.S. product lines which are more competitive. More hopefully, however, it could show us where product modification to meet competition in the U.S. and abroad would be particularly fruitful.

We believe that the GAO studies of three commodity categories in the import market of Brazil demonstrate that such reporting is highly desirable and that properly motivated personnel, with appropriate guidance, are capable not only of preparing useful reports in explanation of declining U.S. market shares, but also of suggesting appropriate remedial actions.

The GAO is aware that uncertainty as to the adequacy of overseas Government support for commercial activity has recently commanded great attention and that there is now in progress an OMB study of the matter. That study may well reveal the extent to which we can reasonably rely on further specialized market analysis by Foreign Service officers. It is perfectly clear now, however, that the BIC needs and welcomes a substantial increase in market analysis reporting. However, staffing and

¹Bureau of International Commerce

funding considerations will substantially affect the extent of any increase in activity of this type. This is a factor clearly recognized in the GAO report as well as in BIC. It is also noted that the report takes no position on the broader research desired by BIC since the study deals only with analysis of products for which U. S. market shares are declining.

Additional Comments

Although market share analysis is of great importance in our export expansion strategy, we believe that it cannot fully substitute for the types of market information currently being acquired to support our overseas promotion programs. In this connection it should be noted that the Department of Commerce and other members of the Council on International Economic Policy are continuing to study the issues involved in export expansion, at present, the main strategies for stimulating U. S. exports are the Federal export promotion programs of the Departments of Agriculture and Commerce. To bring about this expansion in an efficient and effective manner, a more positive identification was found to be needed in connection with product/company/market situations that represent the highest potential for achieving incremental U. S. exports. Analytical market share reporting is, of course, an important ingredient in the mix of information needed to make this identification, but it is not the only one. U. S. technology advance, for example, is another factor.

As part of a Bureau-wide reorganization initiated last summer, BIC is developing a planning system designed to identify markets and products with the highest export potential and to translate this information into short- and long-range planning. When it becomes fully operational, this planning apparatus will provide initial focus on market information while other, more specific arrangements will provide for dissemination of market data.

One of the elements of the planning system, for example, provides for the development of an explanatory model or guide for the application of market share analysis. Working with United Nations and OECD data, as well as with Foreign Service reports and the results of anticipated special studies, this system is expected to enhance our ability to pinpoint the particular market shares that are low and also reveal growth

BEST DOCUMENT AVAILABLE

APPENDIX VI

areas in which we should plan important participation. The required investigations of market shares can benefit greatly from analysis performed by commercial/economic officers in overseas posts.

The BIC is in substantial agreement with the findings and recommendations of the report, particularly with its thrust which emphasizes the value of reporting and of analyzing market shares. It seems desirable, however, to identify two points on which we may have a divergent view, although our differences may only be a matter of emphasis.

The first is what we believe to be the report's overemphasis on declining market shares. Although probably not so intended, the focus on declining shares could be taken to reflect a conclusion that other analysis is of little or no importance. The general decline in our merchandise trade account does, of course, suggest the value of analyzing declines on a product-by-product basis. We wish to note, however, that analysis of expanding market shares may also be of considerable value, for such analysis may well indicate markets in which our various export promotion programs can be particularly effective. Additionally, we anticipate a continuing need for very specific and operational market research which pinpoints opportunities of the sort which justify participation by U.S. firms in individual promotional events.

The second point bears on BIC's efforts with respect to market opportunities in developing countries. For the last several years, BIC has allocated about 20 percent of its trade promotion resources to programs in developing countries. Initial planning for FY 1973 indicates that this percentage will climb to about 30 percent. Illustrative examples of BIC's increased emphasis on the developing world since 1970 include: the conversion of the Bangkok Trade Center to a Trade Development Center serving all of Southeast Asia; the establishment of Trade Development Centers in Buenos Aires, Beirut, and Lagos, all of which will be open before the end of the calendar year; and the development of an array of promotional techniques designed specifically for developing countries. While it is clear that the long-run potential of developing country markets justifies additional action programs, the bureau has not yet determined what priority such programs should have. We are striving to develop a balanced promotional program which allows for the short-term need to maximize incremental U.S. exports and incorporate sufficient market development activity in emerging nations in order to capture these future high potential markets for U.S. companies.

BEST DOCUMENT AVAILABLE

PRINCIPAL OFFICIALS OF
THE DEPARTMENTS OF STATE
AND OF COMMERCE
RESPONSIBLE FOR ADMINISTRATION OF
ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF STATE</u>		
SECRETARY OF STATE:		
William P. Rogers	Jan. 1969	Present
Dean Rusk	Jan. 1961	Jan. 1969
<u>DEPARTMENT OF COMMERCE</u>		
SECRETARY OF COMMERCE:		
Peter G. Peterson	Feb. 1972	Present
Maurice H. Stans	Jan. 1969	Feb. 1972
UNDERSECRETARY OF COMMERCE:		
James T. Lynn	Apr. 1971	Present
Rocco C. Siciliano	Jan. 1971	Apr. 1971
ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS:		
Lawrence A. Fox	June 1972	Present
Harold B. Scott	Oct. 1971	June 1972
William R. McLellan	Sept. 1970	Aug. 1971
Kenneth N. Davis, Jr.	Mar. 1969	July 1970
DEPUTY ASSISTANT SECRETARY AND DIRECTOR, BUREAU OF DOMESTIC COMMERCE:		
Hudson B. Drake	Apr. 1971	Present
William D. Lee	Dec. 1969	Apr. 1971

APPENDIX VII

Tenure of office
From To

DEPARTMENT OF COMMERCE (continued)

DEPUTY ASSISTANT SECRETARY AND
DIRECTOR, BUREAU OF INTERNATIONAL
COMMERCE:

Marinus van Gessel (acting)	Apr. 1972	Present
Robert P. Beshar	Oct. 1971	Apr. 1972
Harold B. Scott	May 1969	Oct. 1971

BEST DOCUMENT AVAILABLE

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.

BEST DOCUMENT AVAILABLE