MEETING

of

ASSEMBLY TASK FORCE ON BUSINESS RETENTION, EXPANSION, AND EXPORT OPPORTUNITIES

"Public and private sector initiatives and programs aimed at business retention and expansion, foreign investment, and export promotion and financing"

LOCATION: Chubb Corporation
Mountain View Road
Warren, New Jersey

DATE: March 29, 1994
10:00 a.m.

MEMBERS OF TASK FORCE PRESENT:

Assemblyman Joseph Azzolina, Chairman
Leo Beebe
Karen Bickford
Robert Coackley
Assemblyman Steve Corodemus
Dr. Patrick A. Diassi
Dr. Saul K. Fenster
Nicholas Gallinaro
Dr. Richard Klein
Joseph McNamara
Henry G. Parker, III
John Pell
Eugene Simko, Ph.D.
Frederick S. Tipson

ALSO PRESENT:

Deborah Smarth
Project Manager and
Task Force Coordinator

Hearing Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, CN 068, Trenton, New Jersey 08625

M E E T I N G   N O T I C E

TO: MEMBERS OF THE ASSEMBLY TASK FORCE ON BUSINESS RETENTION, EXPANSION, AND EXPORT OPPORTUNITIES

FROM: ASSEMBLYMAN JOSEPH AZZOLINA, CHAIRMAN

SUBJECT: **TASK FORCE MEETING - March 29, 1994**

The public may address comments and questions to Deb Smarth, Project Manager and Task Force Coordinator, at (609) 292-5339.

The Assembly Task Force on Business Retention, Expansion, and Export Opportunities will meet on Tuesday, March 29, 1994, at 10:00 A.M. at the Chubb Corporation, 15 Mountain View Road, Warren, New Jersey 07060.

The Task Force will hear testimony on existing public and private sector initiatives and programs aimed at business retention and expansion, foreign investment, and export promotion and financing.

The list of speakers will include State Commissioner of Labor, Peter J. Calderone, representatives of the Department of Commerce and Economic Development and the New Jersey Economic Development Authority, and representatives of the banking and business communities.

Testimony will be limited to these individuals.

Issued 3/24/94

Assistive listening devices available upon 24 hours prior notice.

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ASSEMBLYMAN JOSEPH AZZOLINA (Chairman): Would everyone please take a cup of coffee, or whatever you want, and sit down so we can get going? I guess I didn't talk loud enough. Would everyone please sit down. Take your coffee with you, or whatever you want. There are nameplates here for most of you. The speakers will sit on the side. I think we have mostly everyone here.

Could one of you please shut that door? Thank you.

I will turn the meeting over to Mr. Parker, and then I will continue after that. Mr. Parker is our host today.

MR. PARKER: Mr. Chairman, thank you very much. There are an awful lot of people on the side. How about in the middle here.

I just want to briefly welcome all of you to our headquarters. These are our world headquarters here in what we think is a very nice bucolic setting of -- 154 acres, I think it is. We were lamenting the fact that our very nice view we had 10 years ago when we came out here has been sort of interrupted along Route 78 by a lot of new office buildings. Then we realized it was our own fault, because our Belle Mead Corporation built most of them. So we have no one to blame but ourselves.

I think it is fun to know not only where you are, but what the business is, or businesses are. We, of course, are in the insurance business. The Chubb Corp ranks 25th among diversified financial service organizations in the United States on a market cap basis. We are among the top five insurers in the United States, and the top 15 worldwide. Basically, we have three businesses. The one that you are most familiar with is the commercial and personal property and casualty business. We are also, in a smaller way, in the life insurance business. And third, we are in the real estate business from initial planning all the way up to sale, or sale and lease back, what have you.

We have about 10,000 employees throughout North America, Europe, South America, and the Pacific Rim. Sales-wise, we are at about $5.5 billion, and have total assets of about $20 billion. We have built a network of some 100 branch offices, subsidiaries, affiliates, and so forth overseas, 12 of them, by the way in Europe alone. I just looked yesterday at the eight new offices we opened last year, and five of the eight are overseas. So you can see the emphasis there. We are clearly the largest international insurance underwriter in New Jersey. Indeed, we may be the only international underwriter in New Jersey. I don't know. But nationally, we are the third largest. Dean O'Hare, our Chairman's corporate goal is that we count no less than 25 percent of our gross revenues from overseas sources by the year 2000. We are 18.6 today, and climbing. That is to say we have to grow that much faster than our domestic operation in order to achieve that 25 percent goal.

Again, we welcome you. That was just a brief thumbnail sketch of where you are. I will now turn it back to our distinguished Chairman.

ASSEMBLYMAN AZZOLINA: Thank you, Mr. Parker. I appreciate having your corporation host us today.

These microphones are recording whatever is said here today. These are not to talk through for loudness, but to record what is going on here.

I want to thank the members of the Task Force for taking time out of your busy schedules to travel here today for this important meeting. My gratitude to Henry Parker, who graciously facilitated our meeting at Chubb. I also want to thank the new Commissioner of the State Department of Labor, Peter Calderone, for participating in today's program. Commissioner Medina of the Department of Commerce and Economic Development was supposed to be with us today, but due to a last minute conflict he cannot be here. He is with the Governor in Atlantic City.

When we kicked off this new Task Force back on February 2 in Trenton, I stated that we would be supplementing the membership by adding representatives from a few more industry sectors. We have done just that. I am pleased that we have recruited representatives of businesses from the southern part of our State. In fact, I would like to introduce some of them now:

Mr. Leo Beebe, Chairman of the Board, K-Tron International. Is Mr. Beebe here? (affirmative response) Mr. Robert Coackley, President of Telenex; Dr. Patrick Diassi, former President of the Chemical Division of E. R. Squibb & Sons, and currently consultant to the Pharmaceutical Group of Bristol-Myers Squibb Company; and Dr. Richard Klein, President and Chief Executive Officer of Sybron Chemicals.

I am also pleased to introduce a member who could not make our first organizational meeting, but who is joining us today: Mr. Nick Gallinaro, Chairman and Chief Executive Officer of GAR International, who drove me here today.

Since the inception of this Task Force, we have held several conference calls to get on with the business of this body. I am impressed with the insights and discussions to date, and I look forward to working with all of you in crafting our preliminary report of findings and recommendations, which I would like to submit to the Speaker of the Assembly sometime in June.

Our purpose is not to duplicate the work of other existing networks which may be examining similar issues or to compete with them. It is not to provide direct services to exporters or businesses, since we do not have the human resources necessary to accomplish that objective. Our role, however, is to chart a new course, a new direction, and a new way of doing things here in New Jersey to make New Jersey's business climate excel. I expect that each of the individual subcommittees recommend the specific steps that will be tools for business growth and expansion domestically and internationally.

My thanks to Dr. Schumaker of Emcore Corporation and Peter Sayki of a company called Sicam for testifying before our Task Force. I appreciate the banking community's input. With us today are Jeff Lamia from the Bank of New York, and Bob Crook from CoreStates. I also want to extend my appreciation to Gene Bukowski of the Economic Development Authority and Senior Foreign Representatives from the Trade Division, Dorothy Caramalis and Ed Burton.

Now, let's start the program. We have a long agenda, and we would like to try to keep to the timetable so we can complete the program.

I would like now to call on the Commissioner of the New Jersey Department of Labor. Peter?

ACTING COMM. PETER J. CALDERONE: Good morning, Mr. Chairman, members of the Task Force, ladies and gentlemen. I want to introduce Bob White of our Department, who is our Director of Business and Worker Development. Bob is familiar with the programs I will be speaking about.

I can think of no subjects which are more vital to the interests of our State, its businesses, and its workers than the work of this Task Force. In fact, creating a climate where business can grow and prosper, and making New Jersey an attractive State in which to conduct business is the foundation on which Governor Christine Todd Whitman's economic agenda is built.

In my Department, a substantial portion of our efforts is devoted to making New Jersey competitive in the world economy with other states and other countries. To accomplish this goal, we have spent much of our energy in forging alliances and partnerships with fellow state agencies, with business, labor, educational institutions, and community-based organizations.

Although there is still much to be done, we are confident we are on the right track and that our efforts are helping to create an atmosphere that is conducive to maintaining the health and vitality of our businesses and the well-being of our workers.

In particular, I would like to bring you up to date about a unique program in the Department of Labor which is proving to be a tremendous incentive for New Jersey employers and employees. In fact, it has received worldwide attention. It has been written up, in many cases, in national magazines.

My Department's Office of Customized Training, which is a component of the Workforce Development Program, is the only State agency that provides financial and technical assistance to New Jersey employers to improve their ability to compete in the world economy by upgrading the skills and abilities of their workers.

Customized training is not a new concept. The Department of Labor has served employers through customized training programs since 1978. Prior to the enactment of the Workforce Development Partnership Act on July 7, 1992, the funding for customized training was $2 million. The Workforce Development Partnership increased the available resources to approximately $15 million to $20 million a year.

The increased commitment of resources to a proven and effective program enables the Department of Labor to make a significant investment in training to larger employers such as Ford, General Motors, and Martin Marietta. In fact, the Linden facility of General Motors received a substantial grant from the Department of Labor to upgrade and retool its facilities, and I think that is one of the major reasons that plant remained in New Jersey.

In addition, the program has provided assistance for the kind of small and medium-size companies which offer the best chance for the creation of new jobs today and into the future. All of these jobs are of the high-skill, high-wage category which we must maintain if our citizens and their families are to grow and flourish.

The beauty of customized training is that it targets our resources to enable New Jersey's highly skilled workforce to cope with rapid technological changes and national and foreign competition. In fact, our workforce, in my judgment, is our best asset, and the real asset that attracts business and industry to New Jersey.

A recent research and evaluation project by the U.S. Department of Labor's Employment and Training Administration, called "Economic Change and the American Work Force," examined training, employment, and related issues. It indicated that the American workforce is being split into two disparate segments -- workers empowered by education, who are highly skilled and highly paid, and those isolated from supplementary training and education relegated to low-skill and low-pay jobs.

The study indicated that the key to competitiveness was to focus on ways to develop higher skills within the workforce, or in other terms, modernize the existing industrial base. The study concluded that, against the overwhelming evidence of global shifts in the economy, most employers were conducting business as usual and had no plans to provide supplemental education or training for workers.

In New Jersey, we are well ahead of the nation in trying to reverse that situation. Through customized training, we are attempting to provide financial support to employers who need to invest in retraining and to those who want to educate or expand operations in New Jersey. In short, the program aims to:

* retain and attract business;
* create new jobs;
* increase technical skills of workers;
* provide remedial education as part of skill training.

We've found that access to customized training resources can be a major component in an employer's decision on worker retraining and may offset enough of the cost of business to allow employers to remain and even expand in New Jersey. As you know, that means more jobs for our State, not only with those companies, but through the ripple effect they have on our economy.

Like all areas of endeavor, customized training cannot be all things to all employers. We must target those we can assist in order to have the greatest impact on our economy with the resources at hand.

To do this, we have established certain eligibility requirements. To receive a customized training grant, an organization must be a single employer, labor organization, or community-based organization; or a consortium composed of educational or training institutions in combination with one or more eligible employers, labor organizations, or community-based organizations.

The groups or employers must address certain needs in order to quality for funding. These include:

* creation, retention, or upgrading of positions in labor demand occupations;

* prevention of job losses as a result of a potential facility closing, national or international competition, or changing technology;

* the creation of jobs as a result of a company relocating into New Jersey or starting a business in the State.

If they are approved, applicants are subject to a reasonable number of conditions. We recently imposed that those who receive customized training grants from the State must, in fact, agree, as part of the application and the contract, that they will remain in New Jersey for at least three years after the training is finished, or they will have to repay the State the amount the State contributed towards the training.

For instance, an employer or grant recipient must provide a matching commitment of at least 40 percent of the total program cost. This is usually provided in kind through wages, instruction materials, space, or equipment for training. In fact, you will see from some of my examples that that 40 percent has been increased when we could get more from the employer side.

All companies applying for customized training grants must also submit a business plan -- and this is crucial -- which gives us an indication of the financial condition of the company, along with a long-term human resource development plan. We require the human resource plan to ensure that a grantee maintains a long-term commitment to providing ongoing training and upgrading of its workforce.

Union concurrence is required for programs involving workers covered by a collective bargaining agreement. Also, program participation must not cause displacement of current employees or any reduction in their work hours. Additionally, we require that employers creating new jobs as a result of training list those jobs with the State Employment Service offices, so that the public is aware of the new job opportunities.

We believe not only that our aims are good, but the results of our customized training programs have been effective.

During Fiscal Years 1993 and 1994, there were 74 companies that received customized training grants totaling $23.4 million. These companies, in turn, invested $41 million -- nearly twice as much as the State -- of their own resources in these training efforts. There are also grant applications right now by 56 other companies that are under consideation. These requests total $13.7 million, although we only have $5 million remaining for this fiscal year in the budget.

The result of the 74 training grants has been that 17,000 workers in New Jersey have had their skills upgraded for jobs at companies that will be better able to compete in the global economy.

Let me give you just a few examples of the kind of companies and workers that have benefited from customized training in New Jersey.

Howmedica, in Rutherford, is a Division of Pfizer Hospital Products Group, Incorporated. Howmedica is a leading manufacturer of orthopedic joint implants. As an exporter of products and technology to 27 countries, the company obviously must compete in the global economy to succeed.

Faced with difficult foreign competition, Howmedica, with the help of customized training, undertook a comprehensive, long-range program to make production more cost-effective.

Howmedica's $61,000 customized training grant was matched by the company's commitment of $182,000. Training was provided by the New Jersey Institute of Technology for 165 current workers and for 50 additional workers who were hired in New Jersey.

This resulted in a 13 percent increase in production and, of course, training for its workforce that is involved in the manufacturing aspects. Workers' wages increased 8 percent.

Schein Pharmaceutical, Incorporated is a leading company in developing, manufacturing, and marketing generic drugs. When Schein sought to expand their operations, they considered staying in New York or moving to New Jersey or Connecticut.

The company sought training for 68 workers when it moved to Florham Park. A customized training grant provided

$498,403, and the company provided $468,552 for the program. The result is that the company has added an additional 60 workers to its workforce, bringing a total of 130 jobs to New Jersey.

I have other examples in my report, but I would like to touch on another aspect of our programs at the Department of Labor.

In addition, the Office of Customized Training, through the Business Resource Network, has developed close ties with the Departments of Commerce and Economic Development, Education, and Higher Education, and the New Jersey Economic Development Authority, to coordinate efforts to assist employers. I should add that this week we expect to have the Secretary of State's Office on-line as part of the Business Resource Network. This Network helps employers in secruing affordable capital for needed improvements, expansion, and training to stimulate jobs and investments, as well as to increase competitiveness through a more highly skilled workforce.

The Business Resource Network also works to identify and market programs available to employers, address employers' workforce concerns, and to act as an early warning system to identify employer human resource needs. By contacting any agency in the Business Resource Network, an employer can obtain information about all of the assistance available for business retention and expansion -- the "one-stop shopping" concept in action.

To date, more than 400 businesses have requested information and services through the Business Resource Network and there are numerous success stories resulting from its efforts. I have listed a couple in my prepared statement, which I have provided to the Committee.

While our initiatives -- particularly customized training -- are providing a valuable resource for business retention, expansion, and international trade expansion, we are not content to enjoy our present successes. We are in the continuing process of evaluating and analyzing the results of each program to see how we can do it better the next time. As an example, we are now exploring ways that we might focus funds to support employers located in State urban enterprise zones.

Let me give you a little expansion of that comment in my prepared statement. We have been in contact, and we attempt to contact, companies throughout the world. In one situation, we are looking at using customized training, which to date has been used only for high-skill jobs, to bring some of our manufacturing jobs back to New Jersey. We are now dealing with a company that has manufacturing facilities in Central America. We are in the process of bringing them to one of our major cities in a cooperative effort, not only with our Department and Commerce, as we have traditionally done, but also with the Department of Human Services through a welfare-to-work process that would allow people on welfare to be trained to now do some manufacturing skills, and have companies that have heretofore abandoned some of our locations come back to our major cities.

We are encouraged by the progress we have made, but there is much more to be done. The vitality of our businesses and the future of our workers depend upon it.

That was my prepared text. I have been in State government for about 20 years, and I know most of the State departments and most of the State agencies. I am really thrilled by the efforts of this Task Force, because what we have tried to do -- and I think we are getting there-- You have to have State agencies cooperate. What you do not want is duplication of services. The Business Resource Network is a prime example of how agencies cooperate. All the major players that involve businesses are on the Network. If a businss contacts one of the member agencies, that agency will put that business' concerns on the Network, so any agency that has any programs or ability to help will jump in.

The work group among the State departments meets on a periodic basis, usually once a week, to go over the efforts that are being made to solve the problems for that business. It is just a tremendous activity that we are going to devote a great deal of resources to in the near future to upgrade and to bring on-line, as I said, the Secretary of State's Office. As you know, Bill Healey is working directly there, and will be doing some business outreach and business retention activities, too.

Are there any questions the Task Force has?

ASSEMBLYMAN AZZOLINA: We have time for one or two either comments or questions you would like to present to Peter. Would anyone like to make a comment or ask a question?

MR. PELL: Peter, I gather from your remarks that where the company is sharing in the cost--

ACTING COMMISSIONER CALDERONE: On the customized training.

MR. PELL: They must believe in the customized training that is being provided. You are not providing training for jobs that no longer exist, but you're--

ACTING COMMISSIONER CALDERONE: Absolutely not. One of the conditions of the Workforce Development Partnership Act is that we identify demand occupations; those occupations where the training will, in fact, make a difference and will, in fact, have employees skilled for other industries in New Jersey also, or other manufacturers or businesses, if need be. But these are demand occupations' skills and training.

MR. PELL: Thank you.

ASSEMBLYMAN AZZOLINA: Any other questions or comments? Yes?

MR. McNAMARA: The other day, in our conference calls, we talked a lot about business retention and attraction. In my former life in Commerce, this program -- the Workforce Development Program -- was probably one of the best incentives we have in the State to keep businesses here and to attract them. Not only does it provide customized training and opportunities to upgrade skills -- even academic skills -- but it also provides a financial incentive. We do not have many in the State, so this is an excellent program, and the Business Resource Network does work very well in terms of the fragmentation we talked about the other day. That is one area where there is a strong attempt to bring the agencies together to work cooperatively. So it needs to be promoted, I think.

ACTING COMMISSIONER CALDERONE: I agree with you there. I just found out--

MR. McNAMARA: We had a long discussion the other day about if we had the resources to promote it. When businesses come, and they know how to get into it, it works fine. But they don't all know how to get into it. We need money, and we need an effort to promote it, because it is an excellent program.

ACTING COMMISSIONER CALDERONE: I think that is a great idea. That is one of the things I look forward to, promoting the Network. When businesses know about it, it really gives them a head start. I know we are now starting to deal somewhat more cooperatively with DEPE, which is very critical, too, for the Network.

ASSEMBLYMAN AZZOLINA: Okay. Yes, Nick?

Would each one identify themselves? We need the names for the record.

MR. GALLINARO: I am Nick Gallinaro with GAR.

Would the skill program include language capabilities?

ACTING COMMISSIONER CALDERONE: Yes, we do provide that. In fact, there are GED programs and other incentives.

In fact, we go to the work site even and provide those programs if there are groups of employees who need that training.

I will also mention, besides the customized training, we do have another program in Labor that deals with individual workers. We have individual training programs through the Workforce Development Partnership Act, also, but they are a voucher system for workers who are generally unemployed or underemployed.

ASSEMBLYMAN AZZOLINA: Yes, Mr. Parker?

MR. PARKER: Henry Parker. Since we have so many computer hardware, software, methods, systems, and so forth, some years ago we put together a computer school, which now feeds 90 percent to the tristate area. I believe we have been closely involved with your program, and very happily so, in training from 300 to 350 people, so I was told by the head of the school yesterday. I think that is just another area where your Department is tapping the private sector resources available.

ACTING COMMISSIONER CALDERONE: The Chubb Institute in Parsippany, I guess, is the main campus. That has been a real success story. The programs there are outstanding.

ASSEMBLYMAN AZZOLINA: Well, thank you very much, Commissioner. I hope you stay for the rest of the program and have lunch with us.

ACTING COMMISSIONER CALDERONE: Thank you very much.

ASSEMBLYMAN AZZOLINA: Thank you.

Again, I would like to stress, speak into the mike for the recording, and give your name.

Mr. Beebe is here now, Leo Beebe, from-- I'm sorry. It is Mr. Robert Coackley who has arrived, from Telenex. Would the rest of you please introduce yourselves -- I didn't introduce everyone -- so the rest of the members will know who you are?

MR. PELL: I am John Pell, a former banker.

MR. TIPSON: I am Fred Tipson, with AT&T.

PROFESSOR SIMKO: Gene Simko, from Monmouth College.

MS. FULLER: Cynthia Fuller, Legislative Aide to Assemblywoman Maureen Ogden.

MR. McNAMARA: Joe McNamara, from the Port Authority.

DR. FENSTER: Saul Fenster, NJIT.

ASSEMBLYMAN CORODEMUS: Steve Corodemus, Monmouth County Assemblyman.

MR. COACKLEY: Bob Coackley, Telenex.

MS. BICKFORD: I'm Karen Bickford, from Procedyne.

ASSEMBLYMAN AZZOLINA: The rest were introduced. Okay, thank you.

Joe Grossi, Director, Office of Business Development, Department of Commerce and Economic Development, is here. Commissioner Medina was supposed to be here, as I said before. He is with the Governor in Atlantic City today. Joe I have known for a long time. His father and I are great buddies from the old Navy days. His father was a Navy Chief. His father used to work for me.

J O S E P H T. G R O S S I: From the Navy days, right. That was his first and only love, I think.

Good morning, Mr. Chairman and members of the Task Force. I am pleased to be here today to speak with you about the efforts the Department of Commerce and Economic Development and its Division of Economic Development are taking to assist business.

I have some prepared statements that I will leave with Deb (referring to Debra Smarth, Task Force Coordinator). She can distribute them.

As you are aware, the Department of Commerce and Economic Development was established to act as an advocate for business and to serve as a catalyst for economic growth and development. The Department is responsible for four major program areas: economic development, international trade, travel and tourism, and small, women, and minority-owned businesses. The Department of Commerce, I am happy to say, is not a regulatory agency. However, part of our charge is to support public policy that contributes to New Jersey's competitiveness today, as well as to the opportunities of tomorrow.

Our challenge is to help businesses grow and expand, enhance employment opportunities, strengthen our infrastructure, train our workers, reform the regulatory process, and improve our tax structure.

The Division, through its Office of Business Development, provides services related to the retention and expansion of existing businesses and the attraction of new companies to New Jersey. Staff professionals assist companies with site selection for expansion or relocation plans; provide information on available financing programs -- some of which you will hear about from Mr. Bukowski, from the Economic Development Authority, who is here with us -- and job training, as you have heard from the Department of Labor; and provide, through this network, a liaison between government at all levels and the business community.

We have been able to maximize our effectiveness through cooperative programs with county economic development offices and utility companies to develop integral public/private partnerships of benefit to the business community. A number of key initiatives have become fully operational and highly successful. I am going to hit you with a lot of acronyms here:

MBREP - The Municipal Business Retention and Expansion Program. This is a cooperative undertaking of the Department and New -- well, it used to be New Jersey Bell, and now I have to say Bell Atlantic of New Jersey -- and participating municipalities. It is a major retention effort which has been significantly upgraded. This Program provides a survey analysis of the business environment and becomes the basis for establishing an action plan for improvement. The Program promotes an enhanced relationship between the business community and local government, allowing the focus of limited resources on projects identified as most beneficial to the municipality. This Program is initiated through a request from the mayor of a community. We actually provide the service to the community. We do not run the Program. We provide them with technical assistance. Rutgers University analyzes the surveys that are conducted with the business community to determine what areas within that community require attention.

The next Program is the Business Enhancement Program, or BEP. That is the second of the acronyms. This is another key public/private partnership implemented in 1991. BEP created a partnership between the State and county governments and the three utility companies -- Public Service Electric and Gas, Jersey Central Power and Light, and Atlantic Electric. Through that Program, 300 utility marketing personnel provide outreach to the business community on available State assistance programs.

The information that is gathered is then coordinated by the Division and the Office of Business Development, which monitors the State agency responses. Now, State agency responses could be from the Department of Labor, the Department of Environmental Protection and Energy, the Department of Transportation. So any business that is having difficulty or requires information on any of those regulatory types of issues, and also job training issues, is referred to us through the marketing representatives from the utility companies. The Program is now operational in all 21 counties.

Another service that is provided is a site selection database, which is a computerized inventory of available real estate throughout the State of New Jersey. This includes land, office, warehousing, distribution, and manufacturing space. We also coordinate, with the counties again, and the utility companies, to ensure that the client is shown the most suitable sites. On that system we have presently 1600 real estabe listings. So it helps us when we get a call from a company out-of-state that is looking for a location. It is an easy access for us to find suitable locations. The information on the system is provided to us by building owners and real estate companies.

The second of the three offices within the Division is the Office of Business Advocacy, which assists businesses with regulatory concerns by interacting with Federal, State, county, and municipal agencies on behalf of the business community. The Office has developed a number of services to assist companies in getting through the regulatory permit process:

* First is the one-stop permit identification system. This is a unique method of identifying all State permits required for construction projects. With the Office of Business Advocacy, a permit facilitator is assigned to assist each project through the regulatory maze.

* The one-stop licensing clearinghouse is another service of the Office of Business Advocacy. Through that process there is a database which lists all of the business licenses and certifications that are required by a new start-up business or a business that is interested in expanding. Last year alone, 5000 clients were serviced on a toll-free hot line that provides that information.

* Business Advocacy's maritime coordination function serves as the focal point for the enhancement of New Jersey's ports and for the attraction and retention of the maritime industry in the State. This function also prepares and presents testimony in Washington, D.C. on an annual basis in support of Federal civil works projects appropriations in the categories of navigation, shore protection, beach erosion,

flood control, and water supply projects that impact nearly every county in New Jersey. Just last week, the Department, in cooperation with the Department of Environmental Protection and Energy and on behalf of the State, presented that testimony before the Senate and House Subcommittees on Appropriations of the Energy and Water Committees, and requested more than $85 million of Federal funding for these categories of New Jersey projects.

* Another effort of the Division, which Assemblyman Azzolina and Assemblyman Corodemus are very familiar with, is the Bayshore Development Office, which was reopened in January of 1992. The operation and staffing is another function of the Division, and is a cooperative effort between the State, the Counties of Monmouth and Middlesex, and 13 bayshore coastal communities, which is the area, essentially, on the east coast of New Jersey from Perth Amboy to Sandy Hook.

These communities are being assisted in identifying realistic opportunities for development that will stimulate economic growth, including the protection and expansion of fishing and recreational industries, tourism, employment, and social benefits to the region. The State has contracted with the firm of Rothe-Johnson Associates of Edison to prepare an economic development implementation plan for this region.

The third office is the highly successful New Jersey Urban Enterprise Zone Program -- the UEZ -- which the Legislature created. It has been an effective tool in attracting business to urban locations. Ten initial zones were established to provide significant incentives and benefits to businesses that locate within the zones of Bridgeton, Camden, Elizabeth, Jersey City, Kearny, the joint zone of Millville/Vineland, Newark, Orange, Plainfield, and Trenton.

The success of this Program is evident by the Legislature's actions to increase the total number of zones to 20. Six new zones are predesignated. They are: Paterson, Passaic, Perth Amboy, Phillipsburg, Lakewood, and the joint zone of Asbury Park/Long Branch. The remaining four zones are subject to a competitive application process.

Through these programs the Division of Economic Development will continue to strengthen its position as the focal point for business attraction and business retention activities around the State. Developing public/private partnerships will remain a priority, as these relationships are an effective method of determining the needs of the business community in times of limited resources.

On behalf of Commissioner Medina and myself, I want to express our appreciation to the Task Force for providing the opportunity for us to present an overview of our business retention and expansion programs.

I would be happy to answer any questions.

ASSEMBLYMAN AZZOLINA: Do we have a question or two? Yes?

PROFESSOR SIMKO: Yes, Joe. Gene Simko, from Monmouth College.

We heard Acting Commissioner Calderone talk about the Business Resource Network.

MR. GROSSI: Yes.

PROFESSOR SIMKO: And you spoke briefly about the MBREP -- if I got it correctly -- and the BEP.

MR. GROSSI: Right.

PROFESSOR SIMKO: Is there a degree of interface between the two? Is there any potential for redundancy, or with the coordination that exists can you--

MR. GROSSI: Absolutely. I would say in the recent past we have never had a greater working relationship with the other departments in the State as we do at this point -- the Department of Labor, the Department of Environmental Protection and Energy. When anyone hears that name it sometimes creates chills, especially to people in the business community. The

Department of Transportation is involved. As part of the BEP Program, there is a 10-day cycle that has to be adhered to from when we receive the information from the utility company marketing representatives. I am pleased to say that we are operating at 100 percent, so the companies are being contacted within the goals of the Program by each of the agencies. So the cooperation is excellent.

PROFESSOR SIMKO: But the actual Programs themselves do overlap in terms of their missions, right? Is there some mechanism that coordinates steering of the particular client to either, let's say, the Department of Labor or the Department of Commerce?

MR. GROSSI: Well, through the BEP Program, the Division of Economic Development does that coordination function. We do it through a series of faxes -- using the fax machine -- as we are trying not to tie up the telephones. We have coordinators from each of the departments that are assigned, so it is not that with every request we are calling someone different. There is an assigned individual -- two individuals actually -- who receive the initial response from Commerce, and then follow through at their department level.

ASSEMBLYMAN AZZOLINA: Joe, thank you very much.

I would like to keep moving, unless there is another question.

MR. GROSSI: Thank you, Mr. Chairman.

ASSEMBLYMAN AZZOLINA: Dr. Norman Schumaker, President, Emcore Corporation. He is going to talk about experience with State Commerce agencies and recommendations to improve the business climate. Good morning.

DR. NORMAN SCHUMAKER: Good morning. Mr. Chairman and members of the Task Force, I would like to thank you for the opportunity to relate some of the experiences that the small company that I represent has had with various State agencies. I am really quite pleased to say that generally, those experiences have been quite positive.

It might be worthwhile for me to give a bit of an overview of what a small company like Emcore can do in terms of the world of export, and how the various State agencies have assisted our small company to survive, and actually thrive, in a very competitive environment all throughout the world.

Emcore was founded in 1984 when I left Bell Labs, so you know there is a former colleague in spirit from AT&T here. We decided that we would focus on an area of new technology for new materials which were an emerging opportunity. We decided to leave AT&T Bell Labs and start this venture in New Jersey, primarily because we felt the infrastructure that existed within the State would allow us the opportunity to grow and to expand.

We produce some very sophisticated materials, deposition equipment, which require a very high level of technical expertise and a rather sophisticated manufacturing, albeit it is a rather small operation. We have about 60 people. Sometimes it is up to 70 or 80, depending on the business environment.

We have been successful in developing this technology, and this technology is creating the materials which are used in the consumer electronics and computer industry. If you have a CD player, we produce the waffers -- or our systems produce the waffers from which the devices are made for the semiconductor lasers which are an integral part of the CD player.

We have, I would say-- About 40 percent of our people have advanced degrees, but our manufacturing population, I think, is representative of what the previous gentleman described. We have a very talented and highly educated workforce on our manufacturing floor. I don't think any of the individuals have less than two years beyond high school. That gives you, perhaps, a level of competence.

The success we have had in selling this equipment all around the world has required a rather complex set of interactions. It is rather interesting that some of the people who have helped our small company are sitting in this room right now. In fact, I believe Dorothy Caramalis was one of the first people to visit Emcore when we started, and Gene Bukowski, from the Economic Development Authority, has played a significant role in supporting the company.

We started out in 1984, as I said, as a small company. There were three of us sitting around my dining room table without even a typewriter. The company has grown to 60 people, and we now have sales which exceed $10 million. We have a direct sales office in Europe. We have distributors in Japan, Korea, Taiwan, Mainland China, and we have systems scattered throughout the world. In fact, one aspect of our success which I am particularly proud of is that in the very difficult Japanese market, our company has a 50 percent market share in our equipment. I think that is a little bit unique for an American company to say, given our present trade frictions.

How did the State help us? As I mentioned, Dorothy was one of the first people who came and talked to us. At that point in time, we were, I think, about six or nine months old. Exporting our product outside the country was absolutely beyond my furthest imagination, but we got the information. In 1988, we thought we were ready, and we made a strategic decision to export to Japan.

There is a lot of paperwork involved, but the Department of Commerce, International Trade Division, assisted us in getting all of the necessary paperwork. As our business grew in Japan, and throughout the world, we have taken advantage of the training programs and seminars that it is necessary for small companies to attend to be able to follow all of the regulations.

At the same time, as the company began to grow and expand-- A small company does not have the resources to be able to pursue all of the technological advances which are necessary, so we began to forge some rather significant alliances with Rutgers University, Stevens, NJIT, and Princeton, as sources of technical insight and additional capabilities beyond those that existed within the four walls of our company.

We also got support from the New Jersey Commission on Science and Technology in terms of developing a machine to grow superconducting materials. I have been particularly happy about the relationship we had with the Commission, because we had received, I think, a $149,000 grant in conjunction with Rutgers and Stevens, and we turned that into almost $5 million of business for the State of New Jersey, as well as our own company.

We actually have a system at Stevens, but we have also exported. In fact, 20 percent of the machines we produce for this particular application are exported. So that, I think, is an example of the collaboration of a State agency, the universities, and a small company to create new business opportunities.

As the company grew, one of the critical factors associated with the growth was the need for financing. Unfortunately, one of the problems that small companies have is that the banking environment has rather stringent requirements for capitalization, assets, and what have you. Frankly, without the assistance of the New Jersey Economic Development Authority I would not be sitting here, because the EDA provided Emcore with a guaranteed line of credit with our bank in the amount of $1 million. Then, as our business started to grow on the international basis, the EDA expanded their export program, I think, from $100,000 to a quarter of a million. As Gene knows, I am never really quite happy with that amount, because with an export business that ranges anywhere from 50 percent to 90 percent of our revenues, I would like to see them come out with maybe $2.5 million, because each of our machines is on the order of a half a million to a million dollars.

I think in terms of the programs in the State, we have been very successful in tapping into those opportunities. But I think we may be a unique example because of the aggressiveness with which we pursued State assistance. I think there are many small companies that, frankly, are not even aware of the programs the State offers. If there is one thing I think the Task Force should consider, it is how you can make the services and the opportunities available in the State of New Jersey known to the small business community.

If I may just share with you the experiences we had when we were starting out: When you are a small company, you have little money, and you have a lot of opportunity and a great ambition, you do not have the time to spend going and talking and finding all of the various offices and people. So the comments I have heard this morning about coordinating, networking, and making single-point contacts available to the business community are exceptionally important, particularly for the small businesses.

If I may shift gears now in terms of some of the things I think the Task Force should consider: One of the things, which I think is probably the most important-- I know there are many banking representatives on the Task Force. I think perhaps they would agree in principle, perhaps in detail -- having slightly different opinions -- but generally speaking, small businesses need financial resources. When you are exporting outside the United States, quite often it is very difficult to get the funding necessary to complete the work in progress so you can complete the shipment and the sale. I think, frankly, the program at EDA with the direct loans to a small company like Emcore, were a godsend.

But I think, frankly, there needs to be more done for the small businesses to try to make, either through guarantees or direct loans, the critical working capital available, so that the businesses can bag the order and ship the product, and in between, have enough money to survive. I mean, it is a very difficult thing to understand, unless you have actually sat in the chair and had your knuckles turn white because all of a sudden, you know, your expenditures are rising. You know you are going to get paid, but you do not know when. So it is very, very critical.

Frankly, I think the comments this morning about the cooperation amongst the agencies and parts of State government are very, very good to hear. But, we need more. I think the experience of Emcore with the assistance of the university environments and the communities, the financial portions of the State, as well as the administrative portions of the State, was really critical to the success of our company. I think we have to increase that cooperation. Frankly, we need to make the changing of the relationships the norm, as opposed to the exception.

I am a very great believer that the most critical support function that you can provide, not only the companies, but also the individuals in the State who have to earn their living, is the ability to change and react to a changing environment. I think maybe I am no longer in a minority, but we are witnessing on the global scale a rather substantial economic restructuring of all the business, social, and governmental relationships around the world. I think we in the State have an obligation to help our citizens develop the skills and the opportunities to be able to respond to those changes.

I think we have been very successful. We have been very thankful for the assistance from the State. We would like to see, you know, the State become even more aggressive in assisting companies to export, because the market is no longer confined by the borders of the United States, but really encircles the whole globe. We would not be here as a company without the export opportunities.

I would like to thank you for the opportunity to share our experiences. If you have any questions of a particular nature, I would be happy to answer them.

ASSEMBLYMAN AZZOLINA: Norman, your comments are very important and very appropriate. I think they will go a long way toward helping our Task Force.

If someone would like to make a comment or-- Nick, I knew you would.

MR. GALLINARO: Nick Gallinaro. I have a question with regard to your financial requirements. Describe your customers. Are they entities? What is the risk factor with regard to your customers?

DR. SCHUMAKER: In fact, we are rather unique. I can't really say publicly the names of our Japanese companies, but you drive their cars, you use their electronics, and you watch on their TVs.

ASSEMBLYMAN AZZOLINA: They're first-class.

DR. SCHUMAKER: It's all Fortune 500, if not Fortune 100 companies.

You see, one of the critical aspects -- and this is addressing, I think, the restrictions the banking community has to operate under -- is that quite often, particularly our Japanese and Asian customers, are not adverse to providing a letter of credit as security for the delivery of the machine. But it is a performance letter of credit, as opposed to a demand letter of credit. As a consequence, there is a risk factor: "Well, will the small company" -- like Emcore -- "be able to ship the machine, which is worth a half a million?" So is this letter of credit, which is worth a half a million, sufficient collateral to enhance the comany working funds? I think that was one of the creative aspects of the EDA. The EDA will take the risk, in conjunction with banks, to be able to do that. The banks by themselves won't.

ASSEMBLYMAN AZZOLINA: Norman, thank you very much. One more question, and then we must move on.

MR. TIPSON: When you decided to form this business firm, did you consider leaving New Jersey? What made you decide to do it here?

DR. SCHUMAKER: Well, number one, I had spent 16 years at Bell Labs, so I had my family, my house, all of my business relationships. But there were certain critical factors with regard to New Jersey which I think are significant for small businesses.

Number one, I think we have a very highly educated pool of work resources. We have some good universities. We have good laboratories, you know, the David Sarnoff Center, the Bell Laboratories. So we had the potential pool of people. I would say that 90 percent of the people who work at Emcore live in New Jersey, and they lived in New Jersey when we hired them.

In addition, you have the infrastructure of the available airports. We knew that if we were going to be successful at some point, we would have to be exporting, so the availability of Newark Airport and the easy access to Newark Airport via the various highway systems, was positive. The availability of all of the infrastructure -- machine shops. For example, within 30 minutes of Emcore, I think we have 90 machine shops. Many of the supply corporations and supply companies that we deal with are within an hour of Emcore. So we had what we thought was a critical factor -- a series of critical factors that would allow us to be successful.

ASSEMBLYMAN AZZOLINA: Thank you very much.

Next will be Peter Sakey, President SICAM. He is going to discuss obstacles to entrepreneurship; recommendations to improve the entrepreneurial environment. Welcome.

PETER SAKEY: Good morning, Mr. Chairman. Good morning, Task Force members, ladies and gentlemen. This morning I was asked to just come and share with you a little about what we recently went through over the last few years starting up a start-up, high-tech venture in the State of New Jersey. I think the best way to do that -- and you will hear a lot of things that Norm just covered -- would be if I just kind of go through a little bit of our past history of what it took to get the company to the level where we are today.

But before doing that, let me just give you an overview of what exactly our business is. My partner and I, who started the company, are engineers by profession and worked in New Jersey for about 15 years for a major corporation in product development. We saw a need for helping engineers and companies to develop products more quickly, to get the product to the market more quickly.

A company out in California developed a new technology with lasers. It takes computer images and allows us to make a prototype of a product in the development stage, virtually overnight. This was an evolving technology that was developed, as I mentioned, on the West Coast. It was actually invented in about the mid-'80s -- '85. It took to about '89 to bring it to the marketplace.

When my partner and I put our business plan together in '89, basically we felt that if we bought this technology we could provide an engineering service to help major corporations develop their products more quickly with this technology. After our business plan, in around early '90, we went out and tried to raise financing to do that. It took us about six months to about mid-'90 to get the banks to give us a loan after we put all of our savings and our house on the line.

We started the company and put the equipment on order. Basically, in October of '90 we had two desks and we were waiting for our equipment to come in. In October of '90, the machine arrived and we basically had a catch-22 situation on our hands. We realized that this technology was so high-tech that we had to bring the technology in and learn it ourselves, before we could provide the service to the marketplace. We had to put a cushion in there of three months of start-up time without getting any revenue in.

We found a facility and actually learned the technology. My partner developed the equipment from October to January, while I attacked the marketplace and went out to Fortune 100 companies to make them aware of what we were all about, what we were trying to do. It took us to about February of '91 before we started making any revenue. We immediately pulled in, maybe, four or five major Fortune 100 companies -- Ford Motor Company, Hewlett-Packard, Sun Microsystems, Whirlpool, and Ratheon. Those five companies got into bed with us with the technology. They started using our services, and we started generating revenue.

The problems we encountered in early '90: The first awakening with any start-up venture is, you are really just basically into a dream until you get out into the market to try to see where the market is. We got a real rude awakening, because we realized that not only did we get in on the ground floor, but we were very much on the ground floor. We had a major problem educating the marketplace. The market was just not ready to try the technology or invest heavily in it. We had to tell them about it. It took us basically six months to nine months to get into major corporations to do that.

During the first quarter of '91 with revenue not coming in at the pace we thought it would, we had to regroup our thinking and our business plan and try to figure out how we were going to bear the brunt of educating the market so we could start generating more revenue. Basically, we did not hire the people we thought we would hire, because of the lack of cash flow. We just more aggressively upped the education and did a lot of telemarketing to bring these large companies in to get them to use the services.

Fortunately, around mid-'91, in June, we were granted a $100,000 order from Sun Microsystems. They flew out from the West Coast and they said, "You have the technology. We want it. We need to develop a major product." That really helped us to get over the hump and still stay alive until we could get the market educated.

Late in '91, we realized-- Another major decision of ours was to bring in another molding technology from Japan that was parallel to our technology. To do that, we had to raise more funding to bring in that technology. We basically sourced it from the Japanese in the aúto industry out in Chicago for the first year of '91. We had to go out and raise additional funding. At that point, we had three choices: Either go to venture capital, or go to the banks. The third choice was to try to find some State funding. Fortunately, the EDA came through for us. It was August of '91 that I heard--

As Norm said, most small businesses don't know anything about the State programs. I actually read a small article about the NJEDA, and I made a phone call to Tony Coscia. He actually called me back on his car phone one day, and he said, "What can I do for you?" I told him the situation, and he said, "Why don't you come down to Trenton to talk to us about it?" So it was August of '91 that I went down to the Capitol and met with Steve Szmutko, Senior Loan Officer of the NJDEA. I told him all about what we were doing, and he said, "Let's take a look at your business plan. It sounds like you have to do some regrouping to the business plan."

Between the time frame of September '91 and January '92, we put together some more documents and paperwork on our business. In February of '92, we put an application in to the NJEDA for a loan.

The next thing that happened-- As Norm said, trying to do this while you are running the business, working 24 hours a day, was very difficult. We are trying to keep the business afloat and get out to the marketplace, while at the same time supplying the EDA with a lot of documentation on our finances. Fortunately, the technology started to be accepted out in the marketplace. It was early '92 that basically the Ford Motor Company and the large companies were coming on board. We brought on, also, Black & Decker, and a lot of other major clients. We realized that the technology was not going away; it was being accepted, so we started receiving more orders in. Our biggest problem was cash flow -- working capital.

High-tech, high-risk, is also high capital. We needed, basically, three quarters of a million dollars to start the company. When we started the business, we took $200,000 of our personal money, along with a $100,000 loan from the bank. We told the bank that we would need additional funding later on. When we went back in '91, they told us that they would not give us the additional funding because of the economy. EDA came through with a $200,000 direct loan.

If it weren't for the direct loan program through the NJEDA, we would not be able to be in business today. That direct loan basically helped us get through that critical period. With that loan, we bought the molding technology that was developed in Japan in October of '92 and we also hired four new employees. Basically, we closed '92 out with $325,000 in sales. In '93, with that direct loan and the hired employees, we almost doubled in sales, and we closed the year out at $600,000. We are forecasting, basically, just under $1 million this year in sales. So it was the NJEDA loan which was critical to help us get over that hump.

The year '93 was a very successful year for us. As I mentioned, we doubled in sales. The technology was finally accepted. We are now considered one of the pioneers of a brand-new industry called the "rapid prototyping industry." We have more clients than we can handle right now. We still have a major problem in hiring people and training and getting more employees to grow the business. Now we need more capital for the next wave of machines to come in.

Basically, the three years of the start-up business in New Jersey-- The most difficult part was getting established, and they say it takes three to five years. It took us three years. We turned profitable just at the end of '93. We closed $600,000, but we turned a $20,000 profit. For the first two years, we were losing about $150,000 a year -- in '91 and '92. The profit of only $20,000 in '93 was really because it took us three years to pay off our capital loans on the technology and equipment that we had to buy. We were paying off about a $15,000 a month lease on the first computer piece of equipment. That was paid off in October of '92. So the last quarter of '93 was really our profitable time frame.

This year, with out forecast of just under a million dollars, we already turned-- We are having a successful quarter. We are way above forecast for the first three months of this year. We are closing, I think, at $200,000 in business after this first quarter.

So basically, that is a little bit about what I went through over the last three years in trying to start up a company in New Jersey. As I said, if it weren't for the State funding-- That was critical to our success of even being able to start this new industry.

Some of the things that the State could do-- I am going to say the same things that Norm said. Apparently, the direct loan program was really the only thing that helped us. The banks, virtually when we started, they didn't even want to know us. Even the part of the NJEDA program where they would go in and back certain portions of the bank's-- We were so high-tech and so high-risk that the banks wouldn't look at us, even with the NJEDA. Basically, it was the direct loan program that really helped us.

The other area is-- It is just more involvement with working capital. Even with the direct loan program, it was really geared for capital moneys, as opposed to working capital. We did receive a portion of it for working capital, but we really have to-- This is a brand-new industry. We are bringing people in and training them on a brand-new technology, so working capital is a critical point, also.

ASSEMBLYMAN AZZOLINA: Thank you very much. Any questions? If not, we want to move on.

MR. COACKLEY: I was just a little confused. Did you lease the capital equipment, or did you actually buy it?

MR. SAKEY: The first equipment, when we started the business, was leased. It was a $385,000 lease for this laser technology, along with some engineering workstations. The second piece of equipment we bought was purchased through a loan from the NJEDA.

MR. COACKLEY: Okay.

ASSEMBLYMAN AZZOLINA: One other question. Yes?

MR. GALLINARO: Nick Gallinaro. I wanted to ask you: How did you find out about EDA?

MR. SAKEY: I just read an article in The Star-Ledger one day.

MR. GALLINARO: Did you ever consult your accountant or your lawyer about this?

MR. SAKEY: Oh, yes.

MR. GALLINARO: But they didn't know anything about EDA?

MR. SAKEY: They mentioned about the small businesses of New Jersey, but basically we were told that there really were not that many programs that would sponsor start-up companies. So the problem was--

DR. DIASSI: Peter, you said the technology that started this company was developed in California.

MR. SAKEY: Yes.

DR. DIASSI: Do you have any experience with anyone else in another state, other than California, trying to start this business? Is it either more or less successful because of state policies?

MR. SAKEY: Basically, the industry-- There are about 11 of us doing this in the country right now -- providing this service. A lot of it started around the auto industry area, naturally. That is where the first seven areas started up. The 11 went to about 18, but a lot of them dropped out of business already. I think they were all basically struggling, the same way we were. They were very small companies, you know, with two or three owners, and that's about it.

DR. DIASSI: Do you feel because you were in New Jersey you were successful?

MR. SAKEY: Oh, definitely, not only with the State funding, but just the fact that this is the scientific community of the country right here in New Jersey.

ASSEMBLYMAN AZZOLINA: Okay. Thank you very much.

I would like to skip around a minute, because a couple of people have to leave. Bob Crook is Senior Vice President, International CoreStates Bank. He will be talking about export finance programs and how to increase small/medium-size firms' finance opportunities.

Saul, thank you very much. (Dr. Fenster getting ready to leave)

DR. FENSTER: I just wanted to say something to Peter before I leave.

ROBERT CROOK: Good morning, Mr. Chairman, members of the Task Force, ladies and gentlemen. I guess I am the culprit that doesn't lend money to the small businesspeople. I apologize, and I sympathize.

I would like to sort of run down what CoreStates is, what we do, and what we try to do. CoreStates is about a $30 billion bank, after all our mergers that are pending. We have offices throughout New Jersey, not quite fully north, but we are working our way up there. We have offices in Pennsylvania, as well. We tried to set up our system on the international side. We have branches in four countries: England, Hong Kong, Taiwan, and Japan. We have rep offices in about 14 other countries. We are probably one of the larger regional international banks. We compete with some of the major New York banks as far as volume and so forth.

We try to educate both internally and externally. We have in-house seminars for our loan officers to make them aware of what international is, how we can work with them, so that when a company comes in and starts talking about doing international business overseas, they are aware of who to go to, who to contact, how we can help them, and get the right people in to talk to those people.

We try to be very strong on the educational part by holding seminars for just about every kind of export product you can name. We are foreign exchange, export loans, letters of credit, collections, and so forth. We try to work with the State of New Jersey's Division of International Trade, the U.S. Department of Commerce, Gene Bukowski. We try to work with them. We have had him in, and he has spoken to our people and our company. We work with TradeLink. I am on the original Advisory Board for TradeLink. PSE&G, in my estimation, has done an admirable job to try to get out and touch those people who are involved, or who want to get involved in international banking.

We have over 1200 corresponding banks that deal with CoreStates. I will qualify that by saying there are 1200 banks that have accounts with us, which is important for our customers because we can transfer money back and forth through these banks, and not go through a third institution, which, hopefully, helps our customer to get his money faster and get it to good use by reducing loans, buying more material, or whatever.

We have worked on our seminars. I personally, I guess, give about 10 or 12 letter of credit seminars throughout the year, working in conjunction with the U.S. Department of Commerce. We try to be very active in the international market.

I don't want to belabor CoreStates, but this is why we're here. This is why I'm here. This is my job. I promote trade finance. We have lending officers in the bank who are totally aware of what Eximbank and those government loan programs can do for our customers. I don't make those loans, but we have experts who do make those loans. We do not make Third World 20-year loan commitments. We go in for our trade finance. We try to make money for our customer by making money for us. I will say that CoreStates is unique in one respect, as well. We probably make 40 percent to 45 percent of our income for our total corporation out of fee income, and most of it is generated from the international market. In other words, 55 percent to 60 percent is only being made by loans. So when we get into a market that we have just gone through and we still try to stay profitable, we still try to make loans to our customers that need them, and we are there to help them.

I would really like to cut it off there and open it to questions.

ASSEMBLYMAN AZZOLINA: Does anyone have any questions for Bob? Yes, Nick?

MR. GALLINARO: Nick Gallinaro. What sort of a loan portfolio do you have for Latin America? What percentage of that is your overall business?

MR. CROOK: We are very active in South America. I do not know the exact figures, but I do know that we confirm letters of credit out of South America, out of, I would say, a majority of the countries.

MR. GALLINARO: Forget about letters of credit. I am talking about loan portfolios.

MR. CROOK: Well, we do not make the loans to the individuals in the country. We try to hold our lending down to the trade finances so that our customers will be able to get letters of credit confirmed out of South America so they can make sales there.

MR. GALLINARO: But you have no loan portfolio?

MR. CROOK: We do have a small loan portfolio, yes. The reason we never had problems with the foreign loans is because we did limit ourselves to the foreign loan program.

ASSEMBLYMAN AZZOLINA: Are there any other questions? (no response)

Thank you very much, Bob. You can stay if you want, but I understand you have to leave.

Jeff Lamia, Senior Vice President, Trade and Multinational Banking Division, Bank of New York, on the types of financing needs of small/medium-size firms, and servces provided to assist exporters.

JEFFREY LAMIA: I have some material I want to pass around. (witness passes charts around to members of Task Force)

Good morning. It is a pleasure to be here to hopefully talk a little bit about trade finance from the point of view of the Bank of New York.

Just a brief introduction, if I may. As the Chairman mentioned, I run something called the Trade and Multinational Banking Division at the Bank of New York. As part of our international sector, which has within it typically geographic regions, my job is a specialized division, both in terms of financing -- trade finance, as well as a little bit of international corporate finance. We cut across -- my Division -- all of the geographic areas at the Bank of New York on the international side, in addition to which, we cut across all of the large corporate and middle market. In fact, the largest team I have that reports to me is my middle market group. The good news is, we find it very attractive and very profitable.

Last year, the revenues helping middle market companies at the Bank of New York grew by 24 percent. We have a 25 percent budget this year, and so far we are on it. In fact, the middle market -- lending in middle market companies for trade finance has become the largest revenue area within the Bank of New York, within the greater New York area.

We are pleased to have been able to merge with National Community, because that really brings all of the international capabilities that we have through our worldwide network to New Jersey companies, middle market and smaller companies.

Just briefly, we are a little over $45 billion in assets, and over $4 billion in equity, which makes us one of the strongest, more capitalized banks. We are a little bit different than some of the other banks in that as a bank we have enormous international capabilities. We have a branch system flung across the globe in, I can't even count as many countries throughout the Far East. In some countries like Korea, Japan, and Hong Kong we have two operations. We deal all throughout South America with subsidiaries, as well as rep offices and joint ventures throughout the Middle East, Russia, etc. So we have a lot of international capabilities, and yet we are 16th in assets, which makes us much smaller than a lot of the people we compete with in the international area.

Really, what we have tried to do, what my Division is charged with doing, is to bring all of those international capabilities, as much as we can, to the middle market companies.

What I was hoping I might do today is to run through -- and I want to spend a little more time on the second page -- a little kind of model which I use and walk around with in my own head, which explains a little bit of some of the risks and rewards and the kinds of things we deal with, and why companies may or may not have trouble getting financing, etc.

Obviously, the first page of the handout which talks about the major risks in international trade, I think people here are pretty much familiar with. Obviously, all the standard commercial risks that you would face in lending in the United States apply in terms of financial or acceptance risk, the quality of the product generating the sales, and all the rest.

There are, however, a whole series of political risks which add a whole new dimension, not only typical things that people think of in terms of war, civil disturbance, revolution, and things like that, but obviously there is a whole series of inconvertibility, the fact is, the company, say, an exporter here in New Jersey -- he is selling overseas. The local company may very well be strong in its local terms, but if the country runs out of foreign exchange, then obviously the problem is getting paid, and there are going to be problems.

One of the things, I guess, that a fellow banker just mentioned before -- the fellow from CoreStates-- He mentioned in terms of his answer to one of the questions-- Do they make loans? He recounted the problems that came in the debt crisis of 1982. It is fair to say that prior to 1982, a lot of, not only large banks, but also a lot of medium-size banks, got into financing, not only trade, but directly foreign borrowers. With the '82 crisis, everybody just essentially ran away from the market. I think the problems of the banks with the regulatory authorities are well-known. That made banks much more, I guess, risk adverse in terms of the kinds of international activities.

At the Bank of New York, because of the variety of mergers that we went through, we kind of went in the opposite direction, starting in '88 or '89, and really began to try to integrate all of the capabilities, meaning that international was a big area for us.

When we looked at the market -- and I am going to talk about the second diagram, and I am going to sort of sketch out something I have in my head-- What you see in the first, kind of continuum is companies by size of sales. There is nothing magical about the numbers and the cutoffs. It is simply a way of classifying something that we use internally. We at the Bank of New York really handle companies of all sizes.

With respect to policy on credit and services, and then products down below, what I have tried to illustrate is that if we think of a major large corporation, for the moment, just to take one end of the spectrum, we are really looking at, on the international side, aside from underneath the chief financial officer and assistant treasurer international, there will be a whole series of specialized areas. Some will be dealing with--

There will be credit managers dealing with whether they should take the foreign credit of a foreign buyer. There will be an export credit manager, who will deal with simply export documents, credits, and things like that, which may be totally different from imports. You will have people who will be dealing with foreign subsidiary issues, foreign exchange issues; different people on project finance, etc. So you have a whole series of specialties. That complements, obviously, a whole array of other things on the domestic side which reflect that.

Typically, for the large corporations-- Just to throw a statistic on the table for the moment: Everybody talks about an 80/20 rule. That is to say that 80 percent of your income comes from 20 percent of your customers. Well, in export finance, although the data from the Commerce Department is not good, it is very old, the preliminary information I have seen indicates that it is not an 80/20 rule. It is an 85/2 percent rule. Eighty-five percent of the dollar exports from the country are generated by 2 percent of the companies. That makes sense if you stop and think in the sense of the large corporations that are exporting very high-tech goods, etc., as well as Boeing and everybody else.

Obviously, jobs are talked about in that context. If we can only generate so much more -- a billion more in exports, we generate so many thousands of new jobs. I think what is interesting about that statistic is not itself, but to turn it around. What that means if 85 and 2 percent-- What it means is that 15 percent of the companies -- 15 percent of the export revenue is generated by 98 percent of the companies, which means that the average size sale for a company and the average size company that is dealing in the export market is pretty small. So, for example, in terms of strategies that banks have taken, a lot of the banks that have huge international capabilities really are not involved with the middle market, like ourselves. We are involved in the middle market. So really they are doing really the needs of the large corporation, some of whom are obviously represented here.

When it comes to the smaller and the more medium-size banks in the country, they have taken the tactic that they are going to expand aggressively through the retail area, and therefore they will deal with smaller companies, but they don't really have the international network. So part of the issue, I think, is not only the risk profile of the companies, but also the capabilities and the costs of a network in order to be able to help mid-size companies that banks have to bear.

To go back to my diagram, obviously as you move away from smaller companies, where you've got -- as we have heard -- one, two, or three people who own the company, who run the company, who have a small number of employees-- Obviously, capital is not plentiful. They have higher leverage, meaning total liabilities to equity. Therefore, they also have an enormously larger risk. At that point in time -- just to put a name to some of the problems -- what you really need is investment capital to take investment risk.

Banks, because of the issue we had with our depositors, as well as a whole array of other things that we had with our shareholders, are really in business to take, what we call business or standard commercial risk, which means that the product is there. It is established as a distribution network. The infrastructure is there, and news of the company, so that the risks are much more manageable initially. So we are separating investment risk from commercial risk.

As you move, on the diagram, a policy on credit and services and you move from the right, which would typically be a small domestic company, where credit driven is really the issue, and where basic international services are necessary-- As you move to the left, obviously the capabilities of the company increase -- not always the case. This is obviously a gross generality. But what you also wind up with is, you wind up with many more specialties. The risk begins to go down. The transaction size goes up. Therefore, the costs to a bank of processing that also begin to go down on a dollar basis.

But what happens is, you unbundle those transactions. What I have tried to illustrate graphically in terms of products is, you will get a series of specialists within a bank selling to a series of specialists at a large corporation. The trick, I think, or the difficult task, in general terms, is how to take all of these specialties and deliver them to small and medium-size companies.

As I mentioned, it is the largest growing area of all of the international trade revenues at the bank, which I am proud of. We have done several different things: First is that I have people, through, obviously, our National Community Division here, who are based in New Jersey. We issue letters of credit out of New Jersey. We have trade specialists in New

Jersey, and they are backed up, obviously, with myself and a whole team of other folks who come out of New York. I spend pretty much a lot of time out in New Jersey talking to companies and trying to help them, both one on one, as well as in general.

I think a lot of the issues which come up in terms of looking at financing of companies-- When you go to the bank initially -- in terms of some of the comments that were made -- and you ask for a loan, we are really down in the investment capital area. The risks are tremendous for a bank. That is where often there is a mismatch between the risk and what a bank can do, because if we price as investment risk, people are going to scream through the roof, or they are going to say, "Gee, our product can't bear it."

Having said all of that, the bank is willing to make available certain things. When I say that-- Let me just see if I can flesh this out for the moment. This is in conjunction with the next diagram which I passed out, the third piece, which talks about the terms of trade, or terms of payment, and the risks that both you, as a person who is exporting -- or in terms of the states, the risks that we accept here will take.

Let me just add another thing: Some banks will say they are in the trade business. What they really mean is that they do import finance. That is a piece of imports, and we do a lot of that. But there is a whole other side to trade finance, which is dealing with exports. If you are looking at-- If somebody is here in the United States and they are looking to sell their products offshore, they are going to have to quote terms of trade. So how do they tell the foreign buyer that they want to get paid?

They can say to him, "I want cash in advance, and then I will produce the goods." Okay? In which case then they are self-financing and all the rest of that. Well, that is great from the company's point of view; it is lousy from the buyer's point of view, because he has all the risks of this guy being able to produce, plus it is very expensive to send that cash, obviously, to the United States to start off with.

A little bit different than that is for that foreign buyer to send a letter of credit, an irrevocable letter of credit through to the company here and have it confirmed, say, by the Bank of New York, or whoever it might be; meaning that the risk on payment becomes the Bank of New York. Then we are back to what one of the speakers mentioned, the performance of the local company. Again, that will get into the issue of, what is the track record, so that we make it look like commercial risk.

Typically down at that end we are in either-- In some cases people are exporting-- Garments, for example, are exported, not just imported in the United States. There would be issues of factor, or there could be -- a little bit further away from that -- this asset based financing. We take a look at the quality of the asset and lend a certain percent. Or there are certain percentages to receivables that we will lend, an inventory to a lend and a borrowing base. Or we move away to a general filing, but no specific level of receivables and inventory that we would require to unsecured lending.

All of that change is going to require a decision on the part of the bank of the kinds of risks they are willing to take. I applaud the whole thing that was mentioned in terms of the New Jersey State government agencies that have been able to step in and, in effect, provide the investment capital, the investment risk which is being taken.

The Bank of New York works with the Working Capital Guarantee Program out at the U.S. Eximbank, and we obviously do provide a lot of unsecured credit to companies in New Jersey, middle market companies, as well. If a letter of credit is not available -- just to go on to the third-- Collections basically means that the company here has sort of the working capital to put it on the boat, wave good-bye to it, and send it through the bank for payment, so that the foreign buyer can't get the goods until they actually make payment.

Last, of course, is open account. Now obviously from an open account point of view, basically the New Jersey company puts the stuff on the boat or the plane, waves good-bye, and says, "Pay me in 30, 60, or 90," or whatever it might be, even a term up to one year, or over one year. The point is, you have all the risk. You have all those risks -- commercial and political risks.

My job, or what we try to do -- just to kind of bring it to a close in terms of my job-- What we try to do is work with a company so that they can literally move away from cash in advance on an export down to open account, which means that it is very favorable for the foreign guy to buy the product and to find a way of working with the New Jersey exporter to take the risk off his books. It is not always possible, but it is something that we do. We have, however, a very large infrastructure in order to be able to do this.

One of the ways we look at this is that instead of looking at it when the products get unbundled so we look at it on an individual transaction basis, what we try to do is look at a relationship; meaning, what we really want to do is, we want the personal accounts of the individual. We want to do the warehouse financing if it's there. We want to do his checking account. We want to do the export financing, not only the working capital. Having said that, it is all within the context of trying to make it commercial risk, rather than investment risk.

One of the issues -- and I will just close with this -- is that banks provide services on financing. A large measure of what government, not only here in New Jersey -- putting aside the financing for a moment -- but the U.S. government provides, is information. The problem with all of that is that you have companies that are small. It is one or two guys. They have 1000 things to do. So there is a void. Putting all of that information together by themselves means that they have to be experts. They have 1000 things to do. So the issue of looking at something like what we will call "the people who are kind of an export trading company who grease the wheels and who know how to put all of this together," is crucial to a link in the whole system. It is not something that is well-developed, so if I were to say anything at all in terms of the Task Force, it would be to look at those kinds of trading company middlemen and try to do something for them, because they can really grease the wheels.

I'll stop there.

ASSEMBLYMAN AZZOLINA: Are there any questions or comments? Yes?

DR. KLEIN: Dick Klein, from Sybron Chemicals. How do you see this situation relative to exporting to Russia, and what are you doing relative to Russia credit, at this point?

MR. LAMIA: There is no bank, I can fairly say, that does more business in Russia in terms of correspondent banking, other than the Bank of New York. There are, for middle market companies-- For example, the U.S. Eximbank has approved two what they call "preapproved bank to bank lines." These are arrangements with Russian banks where all the documentation is all done. In fact, I will tell you, the Bank of New York has more of these, and we have them all over the world. I am going to be in Brazil shortly. We have six of them there. We had the first one in India, for example. We are literally all over the world.

But in Russia there are two where if a middle market exporter wants to sell to a Russian counterpart, we will provide to the middle market exporter, for him in turn to pass to his Russian buyer, and say, "Go in and talk to this person" -- of these two banks, and say, "You have a line of credit guaranteed by the Eximbank through the Bank of New York. It is all approved." If they are willing to take the risk of the local Russian buyer, then they simply pull out a promisary note and sign it. All of the foreign currency trading, by the way, in Russia, goes through a particular clearinghouse. We clear all of it.

We have done projects, nonguaranteed Eximbank projects, for the export of equipment. We have done more Eximbank runoff transactions in Russia than anybody, I mean truly. We have done at least $100 million, so there is a lot of stuff that has been done. When we can't do it medium term, our job is to do it short term. There is a Central Asian Republics, which have been-- We just closed $35 million in Turkmenistan, for example. We couldn't do it on the medium term, so we did it on the short term, up to one year. So there is a lot of opportunity, but I think the risks are also enormous. There are a lot of contracts which are signed which never get done.

I don't know if that is an answer to your question.

ASSEMBLYMAN AZZOLINA: Next, Steve.

ASSEMBLYMAN CORODEMUS: Thank you, Mr. Chairman.

Mr. Lamia, if 2 percent of the corporations are generating 98 percent of the business, are you prepared to offer an opinion as to the potential of the other 98 percent of the corporations? Or perhaps at a later date you could give us some suggestions as to facilitating these small trade groups that -- using your words -- "grease the wheels."

MR. LAMIA: Actually, I would like to take the second part of this. I would be pleased to come back and talk a little bit more fully on that issue, how you deal with this middle market greasing wheels. It has been something that has kind of preoccupied me for a long while.

But the issue is, from our point of view -- the bank -- I think there is an enormous opportunity for the State, as well as for my bank, in dealing with the other 98 percent. It is not easy, don't misunderstand me, because there are a lot of risks in the various things. But from my point of view, if I can line up and do the checking accounts, the personal accounts, the payroll account, the credit cards, and I can do the working capital loans, as well as the export stuff-- One of the issues in export finance is that the company you help, typically, is here, but the risk you are taking is over there.

So one of the problems, unlike -- and this is true, even in corporations and even with mid-level companies with $50 million, $60 million, or $70 million-- It is not like you are dealing with a vertical integration where you've got a product line, where there is a manufacturer, a salesman, and everything else. Okay? What you are really talking about is something that cuts across a variety of companies. But the risk you are taking is on the other side of the water, so there has to be-- If we are going to take the risk over there, obviously that has to be structured in some acceptable way. But to do all of this and to use all of the costs for the infrastructure, we have to be able to package it and make sure that the company here provides us with something that is of interest to us, in terms of all those other services.

From our point of view, I think it is a package of things, and other banks do not do that. They are not relationship oriented.

ASSEMBLYMAN AZZOLINA: Thank you; thank you, Jeff. We will have you come back, by the way.

Nick, do you want to give your five-minute report on Vietnam? I know you will keep it to five minutes.

MR. GALLINARO: I'll keep it short.

I have a lot of information about Vietnam, which is available to anyone here in the group. I won't discuss it in detail; I will just give you an overview.

I would also like to suggest, Mr. Chairman, that the Eximbank has an annual conference each year, which will take place in April. It would behoove small businesspeople to attend that conference, which is run by the Eximbank in Washington, D.C. I believe the dates are the 14th and 15th. I could be wrong. Do you know what they are, Jeff?

MR. LAMIA: Yes, I will tell you in a second.

MR. GALLINARO: This year they have a number of changes. They are also-- The first day of the program is basically for small business. It really is worthwhile attending, because you will not only meet the Eximbank, but a lot of other banks and other businesspeople who will help exports.

MR. LAMIA: Actually, I think it is the 20th and the 21st.

MR. GALLINARO: Getting back to Vietnam, we had an interesting trip as part of the Director Group of the International Road Federation to look at the road programs of Vietnam, which are nonexistent, the last roads being built before World War II. One of the ministers indicated that they had to blow them up so the French couldn't move their heavy equipment, and then we got rid of the rest of them.

They are pretty bad. There are dirt roads all over the place. Besides these dirt roads, there is nothing but rice fields and jungle, which, in respect to the MIA problem-- They are participating as well as they can in trying to help us in that regard. They built -- and I saw that particular building in Hanoi -- a building, which is one of the newer buildings in Hanoi, which houses the MIA group, but it is just a tough place to get around in. For the people who had to fight there, they know how difficult that is.

In the meantime, we have 70 million people, over 50 percent of which are under 25 years of age, probably with the greatest work ethnic I have seen, far surpassing that of the

Koreans, with a determination that is outstanding. You didn't see anybody, in the week that I spent there, sitting on their tails, or begging, or whatever the case may be. Everybody is out working.

Their goal, basically, is to catch up with Thailand in five years, which is really a tremendous job. In that connection, remember that three years ago they were standing in line for food, and maybe not getting any. Since the changes that have taken place with Russia no longer aiding Vietnam, they have become somewhat self-sustaining by allowing private enterprise to come in and to thrive in their country.

The net result has been that in those three years, they have become the third largest exporter of rice in the world, behind the United States and Thailand, and the fourth largest exporter of dried fish. Everybody in the world is trying to get into Vietnam, but we were standing by waiting -- with Vietnam itself, even though they were our enemies -- waiting for us to participate in the growth of their economy. They had a lot of U.S. equipment that was left there. They knew quite a bit about American idealism. They needed us in trying to bring their country back up.

The Japanese, in the last year and a half, have invested over $2 billion in Vietnam. The French are right behind them. So therefore, I think it was admirable on the part of the President to do what he did, because I think, from an economic point of view, the opportunities for American companies are great. There is really a considerable amount of work to be done on that country, considering the fact that the Bay of Vietnam -- the Gulf of Vietnam -- is probably the second largest reserve of oil behind Saudi Arabia. There are already about 15 oil companies that are beginning the initial processes of drilling, but of course, there were no American companies. There are no refining capacities in Vietnam. Basically, it is agrarian.

So I think for American exporters, there is considerable opportunity in all areas of activities. The World Bank has begun processing loans for Vietnam; in addition, the private investments of various countries. I think in years to come you will see that as one of the major markets, if not becoming one of the major leaders in the Asian area.

That's about it.

ASSEMBLYMAN AZZOLINA: Thank you, Nick. If anyone wants to ask any questions at lunchtime, Nick will be here.

I would like now to go on to Gene Bukowski, Ed Burton, and Dorothy Caramalis. Then we have one more speaker after they are finished.

EUGENE BUKOWSKI: Mr. Chairman, members of the Task Force, I am Gene Bukowski. I am the Chief Financial Officer for the New Jersey Economic Development Authority.

ASSEMBLYMAN AZZOLINA: You had a lot of good compliments today, I think.

MR. BUKOWSKI: Yes. Fortunately, that is not a rarity.

I would like to first explain the two export finance programs we have available at the Authority. About five years ago, we started a Direct Export Finance Program for small companies in New Jersey that wanted to export and were unable to access the financial resources they needed to compete in the export market. Our first endeavor there was a $100,000 revolving line of credit, which we funded directly through the Authority. You can basically think of that as your MasterCard or Visa Card. You could use it up to the limit, and as you paid it back down you could borrow it again back up to the limit.

We recognized that a lot of the companies that were interested in using this type financing, not only needed it to carry the receivable, but actually needed it to provide both pre- and post-export finance. So we established the line in such a fashion that the company, once qualified, could borrow to purchase the raw material, pay his labor to create the goods or service, ship it overseas, and then pay back the loan when the foreign receivable was collected by him.

You have heard mentioned several times today that dealing in the export market you are looking at basically two risk factors: One, you have a credit risk; and two, you have a performance risk. We decided that we would make our own determination as to what companies we would be willing to take the performance risk from; that is, which companies we felt could fulfill the contracts they had for sales overseas.

That left us with the other end of the puzzle, that being to satisfy ourselves that the credit risk, or the payment risk from overseas, was taken care of. So we required the companies to provide us either with an irrevocable confirmed letter of credit from the foreign purchaser, or if the letter of credit was not available, we could insure the receivable through the Federal Credit Insurance Association. We have a master policy with the FCIA so we can provide credit insurance for the small borrowers who cannot get a letter of credit. Sometimes letters of credit simply aren't available, not because the purchaser can't provide the letter of credit, but because the purchaser is of such stature that they can really buy from whomever they choose, and they will choose to buy from someone who is not going to require a letter of credit for them.

Anyway, as I said, this program has been in existence for about four years. That is how long we have actually had customers borrowing under it. Today we have 13 small businesses that utilize this program. The total loans we have outstanding are about two and a quarter million dollars, which is really not that much. So the average loan, under our Direct Loan Program is only $175,000, but I think that is good for small businesses trying to get into the export market, get their feet wet, and not get burned.

About a year, year and a half ago, we announced New Jersey Global Export, or what we call New Jersey Worldwide. This was a line of credit that was patterned after a program we have called the New Jersey Statewide Loan Pool for Small Business. I will just touch on the Loan Pool for a second, so you will get some idea of the magnitude involved and the differences between the two programs.

New Jersey Worldwide is virtually brand-new. The New Jersey Small Business Loan Pool-- That was started in September of 1991, and it had a goal of providing $30 million of financing in two years. This was a partnership program between banks, the New Jersey Economic Development Authority, and small business. That program -- the Small Business Loan Pool -- has now been in existence for about 26 months, and we have provided almost $180 million worth of financing under that program. So it is six times what the original goal was.

New Jersey Worldwide, on the other hand-- To date, we have five companies that have taken advantage of the program. This program provides up to a million dollars in financing, again a revolving line of credit like your MasterCard or Visa. Under the program, the bank actually does all of the processing and handling of the transaction. What we try to do is give the bank some additional comfort to make the transaction somewhat safer for the bank, and also to try to benefit the small businessman who wants to utilize the program.

For every million dollars the bank advances, we will buy a direct participation from the bank of $250,000. We'll use a million dollars, because it is an easy number to work with. On a million-dollar transaction, we lowered the bank's risk from a million dollars to $750,000. Any collateral taken to secure that line of credit goes to the bank, and we subordinate our collateral position to the bank. So they have a 75 percent exposure, and hopefully 100 percent collateral coverage.

There are times when, even with that direct participation, banks feel there is still too much risk for them to take. In those instances we will also give the bank a guarantee of 25 percent of their 75 percent exposure. My math is pretty good. That gives the bank a risk factor of 54 cents for each dollar advanced. I think one of the reasons that the program hasn't done as well as we would like, is that-- I know through Eximbank that there is greater coverage available on a guarantee basis, perhaps up to 100 percent of the transaction.

The other thing I think is a detriment to this program is that customers that are up in the million-dollar range have grown over the years and now have established banking relationships, so the amount of the financing we are talking about -- a million dollars -- is probably more readily available to the larger customer than to the smaller customer, who might need only $100,000 or $250,000.

With the five companies that are using the New Jersey Worldwide Program today, we have commitments outstanding for slightly over $3.5 million, so it is about $700,000 per borrower.

Some of the other things I was asked to address briefly -- the average transaction size, or the sale overseas-- We have seen transactions overseas for as small as $50,000 from a small manufacturer, and the highest sale we have seen so far is in the $900,000 to the $1 million range. Our companies are all manufacturing companies at this time that are utilizing the program. They have sales ranging from $500,000 up to $10 million.

I think another thing that would put in perspective for you how little our export facilities are utilized-- We have today 18 companies, and our total dollar amount that is available to them is about $6 million. All of my other lending programs at the bank today-- I have about 750 customers, and we have about three-quarters of a billion dollars worth of either loans or guarantees outstanding. You can see the vast discrepancy between the international trade and helping just plain old bread and butter New Jersey companies continue to grow. I am not completely convinced that that is all that bad. We would all like to see export increase, but I think if we can help the small business grow, eventually he may have the opportunity to get into the export market.

Banks have been very active in all of our programs. Most of the export customers we have today in the smaller program -- our Direct Loan Program -- were as a result of referrals from the banking community, where for one reason or another the bank was not able to satisfy the customers' needs, so they were referred to our Authority. Fortunately, we were able to help those customers. Why can we do it and the banks cannot do it? Well, first of all, we do not have stockholders. We are a self-sufficient Authority. We receive no funding from either the State or Federal governments, so we do take what we believe to be as prudent a risk as possible. But we are willing to take risk that the banking industry cannot take, either by regulation or by their responsibilities to their stockholders.

Thank you.

ASSEMBLYMAN AZZOLINA: Suppose we have each of you speak before we ask any questions, okay? Ed?

EDWARD H. BURTON: Thank you, Mr. Chairman.

To the other members of the Task Force: It is indeed a pleasure for Dorothy Caramalis and I to be here to contribute to your important work. It is very rare that the troops in the trenches, such as Dorothy and I, get an opportunity to come before a group such as this and tout our Division. However, if you will allow us our five minutes in the limelight, we will have an overview of the Division.

The Division, since 1981, receiving its mandate to promote New Jersey exports abroad, and also to attract the reverse investment, has undergone really a lot of changes over the last 10 years, specifically over the last four years. When I joined the Division in 1988, we had about 32, 33 people, about 11 of whom were foreign trade representatives such as Dorothy and myself. We are the ones who are actually out in the field, on the phone counseling companies, educating them as to the benefits of exporting.

Over the last four years, because of the budgetary crisis the State has faced, we now have 10 people, about half of whom are foreign trade representatives. So our capacity to be out in the field and to help State-sponsored programs such as New Jersey Worldwide and others has been severely restricted. However, we continue to do our work and we continue to see results. Towards the end -- in a few minutes -- I will recount some of our successes in terms of what our companies have done.

I heard Dr. Schumaker say, or comment regarding the problems that companies have in hearing about some of the State export promotion programs. That has to do, I think, in terms of our Division, again, because of the lack of resources. We have had over the last four years-- For instance, our advertising budget, in some circumstances, was just taken away. Those advertising dollars were wisely spent. We had advertisements overseas -- both overseas and domestically here, telling companies both overseas and here about our companies and our programs. That is just one instance.

However, over the last four years, because of the diminishing resources, we have really had to change our focus. When we had 30, 33 people, we used to take on all comers. I mean, we would counsel companies that would call the Division ranging from people who would wake up one morning saying, "I want to start an import/export company," to Johnson & Johnson and Thomas and Betz -- well, that is not a good example; they have left the State -- but companies of that size, and anywhere in between. Certainly now what we have had to do is narrow the focus to companies -- registered clients with us that have exportable products and services. I want to stress services, because like the Federal government, we here in the State at the Division have been trying to get a handle on coping with the importance of the service sector. It is an important sector. Many of us have taken service companies overseas to our trade events and they have done well. Historically, they have been ignored, and certainly we understand the importance of that.

Now, before citing some of our successes, I will very briefly just outline what we do. Probably our mantelpiece program over the years has been our Trade Events Program. We do about 10 to 15 trade events. We do them all over the world -- 10 to 15, depending upon the fiscal situation of our Department and our Division. Some of them are industry specific; others are market specific. We do them in very close cooperation with the U.S. Department of Commerce, and Dave Cole, who is here, I'm sure could affirm that. We have a formal working relationship with the U.S. Department of Commerce, and we work closely with them in selecting markets, selecting industries that we will focus in on when we recruit New Jersey companies' participation in our shows.

We sponsor and cosponsor conferences and seminars, again, some industry specific, some market specific, and others dealing with export documentation. We work closely, as I said, with the Department of Commerce, the New York/New Jersey Port Authority, State and local Chambers of Commerce, and institutions of higher learning, such as the roundtables that many of the colleges sponsor, all of these in an effort to educate companies as to the benefits of exporting. Despite the five foreign trade representatives who remain at the Division, we do have a corps of very highly seasoned and experienced international trade representatives. Dorothy Caramalis, who has 17 years with the Department of Commerce, specializes in export licensing. I have a legal background. There are other people in the Division who have worked specifically in certain markets. All of us have language capabilities. So we continue to outreach to the community to tell them about our programs. As I said, it would be nice if there were more of us there. Perhaps we could cover a lot more ground.

Lastly, I want to just tell you what we have tried to do internally, and it has been difficult because none of us really have the expertise that is needed to really document and give to you the kind of successes that companies have had. So what we did was -- at the end of 1993 -- develop a form which basically asks companies what they have done as a result of using our programs; whether they have had any export sales; whether they have added any jobs; whether they have retained any jobs; whether they formed any commercial relationships such as agency distribution relationships, licensing, or joint ventures.

We sent those out to our client database, which at that time was about 1800. We received about a 6 percent response, which we were not satisfied with, but 120-some firms replied, not all of which said they benefited, quite frankly, from our Division's programs. But the majority reported back that they did have sales. We reported over the last seven years that those companies had in excess of $21 million in sales. They formed over 500 commercial relationships, again, agency distribution relationships. Over 300 jobs were retained as a direct result of our programs. All of this is in the company's own hand-writing. Their comments also, at the end, are available. Over 165 jobs were created. This is directly as a result of our programs.

What we have not had the luxury of doing, unfortunately, is to go back to those other firms -- those 1600 odd firms -- that had not come back and said to us whether they benefited from our programs, simply because we do not have the staff. What we have been doing over the last year, I guess, is using interns -- college interns -- who only have a limited benefit. But there is, I think, concrete benefit, and hopefully with the resources I believe Governor Whitman will send our way, we will be able to document those successes in a greater way.

Thank you.

DOROTHY B. CARAMALIS: I think Ed has articulated all our programs and services, as well as what we do in the field and how hard we work. To give you an idea -- and I don't want to keep talking about this -- how small our staff is, we were team leaders. We had four or five people under us. Now I am the team for all of Europe. I know I have many years of expertise, but to handle all of Europe, as an example, is a job.

The only other point I want to make is, I think the mantelpiece, or the highlight of our programs is the Trade Show Program overseas. We have taken a lot of small and medium-size companies overseas that probably would have never gone without our help. They would be happy, I think, to give testimony here.

Just, I guess, last week, Ed and I had a briefing down in Trenton at Lorenzo's. We have 11 firms we are taking to Mexico, and we had our Director there. I think each one of these companies probably would not have gone down without that extra little push that the State gives. We subsidize the companies. We get interpreters for them. We do a lot for them, so that when they get there the logistics have all been done, and the booth is set up.

We are always trying to be innovative there. For instance, we did a technology -- an environmental technology seminar mission to the U.K. just last month, in which I participated. We took two new export companies that probably never even thought of going. They were engineering consulting companies that really would not have gone without us calling them and contacting them. I have to go back to them and find out just exactly what they have done. They reported that they were very satisfied with having the opportunity to go to the U.K. and Spain and seeing what opportunities are there.

I won't take any more of your time, but we are here to take any questions. Thank you.

ASSEMBLYMAN AZZOLINA: Are there any questions or comments?

DR. DIASSI: Pat Diassi. Can you tell us some of your successes in the service industry area? I mean, we have heard about the manufacturing area, but-- Particularly you mentioned the environmental aspect, but are there any other service areas where you have been successful?

MR. BURTON: The service industry, as I said, has historically been neglected, I think. Probably part of that has to do with the fact that most of the emphasis over the last 10 to 15 years has been on the industrialized world. When you go into Europe and other parts of the world where you have a developed economy, you are going to face very stiff competition from architects, from engineers, from advertising firms that are already there and are well-entrenched. That has basically, quite frankly, been our marketing emphasis, on Europe, on Japan, and it is very difficult. However, now, with the emerging markets, we have had successes with software firms, development firms. We have had some successes-- Actually, I have taken a franchise outfit down to South America, and they have actually been able to sell contracts down there.

Basically in the high technology industry, me personally, I have had successes with computers, computer management, and the software industry. We did a mission to the Caribbean also. There was a minority firm that-- As a matter of fact, Malcolm Dunn, I think, who has had contracts with the New York/New Jersey Port Authority, went down to the Caribbean and had a contract for maintenance at one of the bases. What we have to recognize is that there are opportunities for service firms, and I think we should give greater emphasis to them.

ASSEMBLYMAN AZZOLINA: Henry?

MR. PARKER: I just wanted to support what Ed and Dorothy have said about services. They account for eight out of ten jobs in this State. There is a great preponderance. As important, obviously, as manufacturing is, and always will be, it is only 20 percent of the action here. It has been a long time coming; eight years with the Division of International Trade trying to convince them, you know, to do that.

I just want to compliment you two. I have been on some panels and other things with both of you over the years.

I have a question. I know you were team leaders, and now you are down to-- Dorothy was saying that she is doing all of Europe now, and how the heck do you do it? Ed mentioned that he thought Governor Whitman would replenish some of their sources. Is that a fact, Ed, or is that just wishful thinking?

MR. BURTON: I had an opportunity to spend some time with the Governor about 10 days ago. The Governor spoke at my Dad's church down in Atlantic City. Perhaps it wasn't the most appropriate forum, but at the time I asked her-- I identified myself as working with the Division, and told her we were pleased with the appointment of Gil Medina; and that we hoped she would take an active role in promoting New Jersey's exports. In fact, she said, "That is what I intend to do." She said, "Maybe not traveling at first, but definitely I intend to take a role."

On that, I just want to say that the Division, in the past, by some sectors, has come under fire, I think, and sometimes has been questioned regarding the heavy emphasis on traveling to these foreign events. I can certainly understand, you know, the reasons for it. I mean, we need to ensure that

New Jersey taxpayers get the biggest bang for the buck. But I really believe that these international trade events afford companies what is most important; that is, face-to-face contact with potential customers, or agents and distributors. Nothing replaces that. Sooner or later, a company is going to have to sit down with people and talk to them.

Just to give you an example, I led a mission, along with our former Director, Philip Ferzan, last September, to the Republic of Ghana. Now, you know, if you said Africa a few years ago just as you may have mentioned Vietnam a few years ago, you would have gotten laughs. But we took 14 companies, I think 12 of which were minority companies. The nonminority company came out of that mission with over a $50 million contract for services. That is another service sector firm that came away.

So, I think it is important to make these trips and to take companies by the hand and get them into markets, or get them to expand into existing markets, as is appropriate.

ASSEMBLYMAN AZZOLINA: Joe? Oh, I'm sorry, Henry.

MR. PARKER: Excuse me. I couldn't agree more. The Division at one time, as you well know-- New Jersey had its own trade office in Tokyo which I, when it still existed, addressed several times when I was over there on Chubb Company business. Those days are all gone, but I would think, Mr. Chairman, that should you find that your Division of International Trade budget is getting sliced, you know, even further -- and I certainly hope that that is not the case-- But if it is, I would think you would have one sympathetic group here in the Assembly to say, "Hey, enough is enough."

MR. BURTON: I have been looking at the cards that say "Assemblyman" around the table, so--

ASSEMBLYMAN AZZOLINA: Joe, are you going to get any extra money? (laughter)

MR. McNAMARA: Well, actually, the Port Authority, as Ed mentioned-- When I was with the State, now, back and forth, there was a close working relationship between the two. In fact, in the Port Authority's Asian office there is a contract employed at the State. So we give them space, and have talked about working with our London office also. But a lot of the contacts and the leads-- Now having them back in international business, the relationship is almost an extension of staff. So there is a good relationship.

Just having participated in the cuts they are talking about from the other end over the last couple of years -- which has helped me where I am, as well as the committee-- With the less resources you have -- and we have gone through this over the last year or so-- Where are you focusing? What markets are you missing right now, over the next year or so? I mean, I have not been involved in your planning, obviously, for the last six months, but I am curious as to where you think we are missing the boat and where we can put some resources.

MS. CARAMALIS: Well, I don't know. We have tried to put a plan together for our future events. I think we are focusing on, frankly, what are the hot markets these days, and those are South America, Mexico, and those areas. We were looking at exports-- This morning I was sharing with Ed some statistics we got from the U.S. Department of Commerce showing that we shouldn't really neglect Europe, though, you know. If you look at the deficits-- We had deficits with all of the Far East countries. You might say, "Well, that is where we should go, you know, to rectify that." However, why keep pounding away at people who don't want to buy. Why not go for those people who are buying. Many of the European countries we should not neglect, like the U.K. It is not just because I am the team leader, but if you look at the statistics.

We are looking at South America, because I think a lot of our small companies have come to us and said, "Hey, you know--" As I said to Ed the other day, you remember the old movie, "The Graduate," where the man said "plastics." Well, today you say Mexico, and everybody -- they don't care. It is, "Sign me up," they send checks, and there are opportunities down there. So we're looking, I think, with NAFTA, at probably Europe, and we will not neglect the Far East. I think those are the areas that we are going to be looking at.

Right now, we have a man in Thailand, and we'll see what he reports. China, of course, is a tremendous market. So, again, looking at South America, Central America, Latin America, and also not neglecting-- We have to look as opportunities open up, like Vietnam. I think we put that down as something we are looking at, perhaps.

We have a question: What about getting paid, do you think, in Vietnam if these businesses go there? I mean, there may be opportunities--

MR. GALLINARO: Everything is going to be World Bank, or Eximbank.

MS. CARAMALIS: Okay.

MR. GALLINARO: That is how you get paid.

MS. CARAMALIS: Right.

MR. GALLINARO: I think you have to look at where the immediate opportunities are. You are not going to find them in Europe, because Europe is dead. You go and find them in Latin America, which is thriving.

MS. CARAMALIS: Exactly. As I remember, I visited you many years ago. I don't know if you remember.

MR. GALLINARO: I do.

MS. CARAMALIS: Ed was kind, he said 17 years. I have been in this business for 25, but anyway -- formerly with the U.S. Department of Commerce. I think in your business, certainly, there are tremendous opportunities.

ASSEMBLYMAN AZZOLINA: Are there any more questions? One more. Okay, John?

MR. PELL: Just a quick one. I don't know anything about your financial plan. I grant that probably a lot of what you do is subsidize, basically, these smaller companies. Do you think you could help your case, or the budget in getting more of a staff so you can deliver firsthand service, by considering some fees, perhaps some of them contingent upon sales developing, and so forth and so on?

MR. BURTON: We have looked at that. About a year ago, we tried to shift towards a more -- actually, a total cost recovery, in terms of the events we do. For the most part, we found that companies that have the wherewithal -- the mid-size companies -- had no problem with it. But those companies earning less than $1 million, or less than $5 million actually -- some of them have severe cash flow problems -- that $300 or $400 increase, sometimes a $500 increase in the prices towards our cost recovery, really placed them outside, I think, of active participation in a lot of the overseas events.

Now, what I think we are looking at in terms of cost recovery this year is some of-- For instance, our publications. We have publications, industrial directories, that we take overseas for certain industries, and they get distributed to foreign businesses. There has been significant business generated as a result of that. That costs the Division money, so we have been thinking of charging for those. That is something we are looking at.

ASSEMBLYMAN AZZOLINA: Thank you very much.

We have one more speaker, and then that's it. Dave Cole?

D A V I D C O L E: Hi. I am Dave Cole, with the United States Foreign Commercial Service. I am currently assigned to the Trenton District Office. I am speaking here today on behalf of Rod Stewart, our Director. On his behalf, I thank you for inviting me to speak here. Knowing that lunch is waiting, I will be mercifully brief.

ASSEMBLYMAN AZZOLINA: Where are you located?

MR. COLE: I am located in Trenton. I was going to say a little more about that as I talked. That is included in my brief remarks.

The United States Foreign Commercial Service's sole mission is to increase U.S. exports. We do this through a network of some 70 district and branch offices here in the United States and, most importantly, through 70 commercial sections located in U.S. embassies and consulates abroad.

To answer your question, here in New Jersey we have a district office that is located in Trenton/Lawrenceville. It is really out in Lawrenceville at the intersection of Princeton Pike and I-295, the interstate that comes around. We also have two, what we call "prototype branch offices," one located at Bergen Community College, and the other at Montclair State College. I am at the Montclair State College office. I am usually up there three or four days a week.

Our total office, including everyone under the Trenton District Office-- The office is staffed by five professionals and three support staff. Our overseas commercial sections located in the embassies, and our consulates, concentrate on collecting information, on potential trade leads, and assessments of the best industrial sector leads by country.

We currently pass this information on to you as a business community through the National Trade Data Bank and the Economic Bulletin Board. One of those, the National Trade Data Bank, is CD-ROM driven, and I think it helps to say that it helps your business, I think. We are out promoting the sale of CD-ROMs for industrial use all the time. It has proved a much better way to get the information directly out to our customers. The Economic Bulletin Board is an on-line service brought in by fax modum.

Equally important, and I would say even more important, our commercial officers, in close cooperation with

U.S. ambassadors and high-ranking government officials in Washington, directly encourage foreign government and private sector leaders to buy U.S. products. For example, Commerce officials and White House officials just recently encouraged King Faud, of Saudi Arabia to buy Boeing planes, as opposed to the European airbus.

District offices here in the United States concentrate on one-on-one counseling for export-ready companies. We also serve as liaison with our commercial sections overseas. In relation to State agencies, we work closely with all State agencies, particularly the Division of International Trade. I would like to reenforce that we do work very closely, whether I speak officially for Rod Steward or on a personal level-- We work one on one with each one of the members of the Division of International Trade, and I think we have a very close relationship with them.

We also serve as a catalyst to encourage both public and private organizations to promote exports in the State. In the State of New Jersey, the Trenton District Office, last year, directly assisted 60 companies to generate $4.5 million in what we call "first sales" overseas, which would, in some cases, be test cases, but that is really what we track to introduce companies into new markets overseas.

This year, we are heavily concentrating on Mexico and Latin America. You asked previously about that. We recently ran a major seminar on Certificates of Origin, on how to get your products into Mexico under the new NAFTA rules. Also, our district office is leading a trade mission to Mexico. This is a very market-driven exercise based on the fact that there was no one else. I offer my own personal opinion: We said some of the impact on the Division of International Trade-- The fact is, the Trenton District Office of the U.S. Department of Commerce has not taken a trade mission overseas by itself, self-generated, for at least -- ever since I have been here, which is now five years. We are now suddenly doing this. I would offer the opinion that there might be a relationship to the fact that we are now into the trade mission business, while the State's Division of International Trade has had to pull back. I suggest that there may be a relationship between the two.

We are glad to do it, but I would also point out that this is still a very heavily subsidized mission. I think there is a role for subsidy in getting companies first started overseas. That is the fact that we generated enough funds through the New Jersey District Export Council to be able to offer an offset of some $900 per participating company. But this is all money that is within the State of New Jersey. By people paying participation fees to come to the conference, that money, in turn, is helping the companies go overseas. So it is not a subsidy that is coming from the U.S. government; it is money being raised here in the State of New Jersey. So, it comes out in the wash one way or the other.

Beyond that, I would reiterate what Ed Burton said about the necessity of having one-on-one meetings with your foreign customer. Somehow you have to get either the company over there -- or get the customer from overseas over here to meet one on one with the companies. However that is done, I think the New Jersey Division of International Trade has done very well in the past, and is now remarkable with the work they are doing, considering the cut in the resources.

I would be glad to take any questions.

ASSEMBLYMAN AZZOLINA: Are there any questions?

MR. TIPSON: I would just like to make a brief comment. We have worked very closely with our Foreign Commercial Service in a number of countries and they have been a tremendous asset, to AT&T in particular. I am talking on the order of hundreds of millions of dollars in sales that are directly related to their help. So it is an indispensable service.

MR. PELL: You're being subsidized?

MR. TIPSON: I guess we are.

ASSEMBLYMAN AZZOLINA: Are there any other comments or questions? (no response) If not, I want to thank you very much.

We will get into our break for lunch in a minute. Our next meeting will be on May 17. We have not determined where we want to hold that meeting. I know, John, you have made recommendations, I think.

MR. PELL: I can't for sure give you a choice at the moment, but I do know I can get, I think, adequate space in Princeton, at the Atlantic Branch there. I haven't talked to Ed Aubus (phonetic spelling) -- because I didn't have a date -- about probably better facilities.

ASSEMBLYMAN AZZOLINA: Would you check that then?

MR. PELL: Yes.

ASSEMBLYMAN AZZOLINA: It would be right near the Parkway and the Turnpike, I'm pretty sure.

MR. PELL: Yes, it is very convenient.

ASSEMBLYMAN AZZOLINA: Okay. We will eventually move south.

MR. COLE: Mr. Chairman?

ASSEMBLYMAN AZZOLINA: Yes?

MR. COLE: Just a brief administrative note. On that date, May 17-- Is that by chance World Trade Week and, in fact, World Trade Day? Is that a Wednesday?

MS. CARAMALIS: (speaking from audience) That's right, it is World Trade Day. (remainder of comment indiscernible; no microphone)

ASSEMBLYMAN AZZOLINA: Okay, we will get another day then. We can't do it right now.

MR. COLE: I think aside from that day, any other day. But that is kind of the major event of the year for the promotion of world trade. In fact, I invite you all to come to it.

ASSEMBLYMAN AZZOLINA: It will be somewhere around that date. We will check with everyone to see how it is and where it will be.

The subcommittees we have been doing by phone, which is working out very well. They will continue by phone. If they want any special meetings in Trenton, hearings, or anything, we can arrange that, also -- if any subcommittees want to have a few members attend a hearing in Trenton for some reason, or all the members. We will want the data for the report or recommendations to be generated from the subcommittees and the Chairmen, the recommendations that we are going to be looking for, for the Legislature, for the Governor, or any departments, whatever ideas we have that can help toward what we are looking to do in this Task Force. We want to move forward, and hopefully we will have something fruitful by June.

We are going to break for lunch, I guess.

(MEETING CONCLUDED)

APPENDIX

Statement of
Peter J. Calderone, Acting Commissioner
New Jersey Department of Labor

Assembly Task Force on Business Retention,
Expansion and Export Opportunities
March 29, 1994

Chairman Azzolina, members of the Assembly Task Force on Business Retention, Expansion and Export Opportunities, Ladies and Gentlemen:

Good morning. I am Peter J. Calderone, Acting Commissioner of the New Jersey Department of Labor. I appreciate this opportunity to testify before you today about the activities of my Department which are related to business retention, expansion and promotion of international trade.

I can think of no subjects which are more vital to the interests of our state, its businesses and its workers.

In fact, creating a climate where business can grow and prosper, and making New Jersey an attractive state in which to conduct business is the foundation on which Governor Christine Todd Whitman's economic agenda is built.

In my Department, a substantial portion of our efforts are devoted to making New Jersey competitive in the world economy with other states and other countries. To accomplish this goal we have spent much of our energy in forging alliances and partnerships with fellow state agencies, with business, labor, educational institutions and community-based organizations.

Although there's still much to be done, we are confident we are on the right track and that our efforts are helping to create an atmosphere that is conducive to maintaining the health and vitality of our businesses and the well-being of our workers.

In particular, I would like to bring you up to date about a unique program in the Labor Department which is proving to be a tremendous incentive for New Jersey employers to remain in the state and to become more competitive through training for their employees.

My Department's Office of Customized Training, which is a component of the Workforce Development Program, is the only State agency that provides financial and technical assistance to New Jersey employers to improve their ability to compete in the world economy by upgrading the skills and abilities of their workers.

Customized training is not a new concept. The Department of Labor has served employers through customized training programs since 1978. Prior to the enactment of the Workforce Development Partnership on July 7, 1992, the funding for customized training was $2 million. The Workforce Development Partnership increased the available resources to approximately $15 to $20 million a year.

The increased commitment of resources to a proven and effective program enables the Department of Labor to make a significant investment in training by larger employers such as Ford, General Motors and Martin Marietta by providing matching funds to the companies' own commitment to improving the skills of their workers. In addition, the program has provided assistance for the kind of small and medium size companies which offer the best chance for the creation of new jobs today and into the future. All of these jobs are of the high-skill, high-wage category which we must maintain if our citizens and their families are to grow and flourish.

The beauty of customized training is that it targets our resources to enable New Jersey's highly-skilled work force to cope with rapid technological changes and national and foreign competition.

A recent research and evaluation project by the U.S. Department of Labor's Employment and Training Administration called "Economic Change and the American Work Force" examined training, employment and related issues. It indicated that the American work force is being split into two disparate segments -- workers empowered by education, who are highly skilled and highly paid and those isolated from supplementary training and education relegated to low-skill and low-pay jobs.

The study indicated that the key to competitiveness was to focus on ways to develop higher skills within the work force, or in other terms modernize the existing industrial base. The study concluded that, against the overwhelming evidence of global shifts in the economy, most employers were conducting business as usual and had no plans to provide supplemental education or training for workers.

In New Jersey, we are well ahead of the nation in trying to reverse that situation. Through customized training we are attempting to provide financial support to employers who need to invest in retraining and to those who want to relocate or expand operations in New Jersey. In short, the program aims to:

- Retain and attract business
- Create new jobs
- Increase technical skills of workers
- Provide remedial education as part of skill training

We've found that access to customized training resources can be a major component in an employer's decision on worker retraining and may offset enough of the cost of business to allow employers to remain and even expand in New Jersey. As you know, that means more jobs for our State, not only with those companies, but through the ripple effect they have on our economy.

Like all areas of endeavor, customized training cannot be all things to all employers. We must target those we can assist in order to have the greatest impact on our economy with the resources at hand.

To do this, we have established certain eligibility requirements. To receive a customized training grant an organization must be a single employer, labor organization, or community-based organization; or a consortium composed of educational or training institutions in combination with one or more eligible employers, labor organizations or community-based organizations.

The groups or employers must address certain needs in order to qualify for funding. These include:

- Creation, retention, or upgrading of positions in labor demand occupations;
- Prevention of job losses as a result of a potential facility closing, national or international competition, or changing technology;
- The creation of jobs as a result of a company relocating into New Jersey or starting a business in the State.

If they are approved, applicants are subject to a reasonable number of conditions which protect the interests of the State as well as the workers being trained.

For instance, an employer or grant recipient must provide a matching commitment of at least 40 percent of the total program cost. This is usually provided in kind through wages, instruction materials, space or equipment for training. We can set a higher or lower level of cost matching, if it is warranted.

All companies applying for customized training grants also must submit a business plan, which gives us an indication of the fiscal condition of the company, along with a long-term human resource development plan. We require the human resource plan to ensure that a grantee maintains a long-term commitment to providing ongoing training and upgrading of its work force.

Union concurrence is required for programs involving workers covered by a collective bargaining agreement. Also, program participation must not cause displacement of current employees or any reduction in their work hours. Additionally, we require that employers creating new jobs as a result of training list those jobs with the State Employment Service offices so that the public is aware of the new job opportunities.

We believe not only that our aims are good but the results of our customized training programs have been effective.

During fiscal years 1993 and 1994, there were 74 companies that received customized training grants totaling $23.4 million. These companies, in turn, invested $41 million -- nearly twice as much as the State -- of their own resources in these training efforts. There also are grant applications by 56 other companies that are now under consideration. Those requests total $13.7 million although there is less than $5 million remaining in the fiscal year 1994 budget.

The result of the 74 training grants has been that 17,000 workers in New Jersey have had their skills upgraded for jobs at companies that will be better able to compete in the global economy.

Let me give you just a few examples of the kind of companies and workers who have benefited from customized training in New Jersey.

Howmedica, in Rutherford, is a Division of Pfizer Hospital Products Group, Incorporated. Howmedica is a leading manufacturer of orthopedic joint implants. As an exporter of products and technology to 27 countries, the company obviously must compete in the global economy to succeed.

Faced with difficult foreign competition, Howmedica, with the help of customized training, undertook a comprehensive, long-range program to make production more cost-effective.

Howmedica's $61,000 customized training grant was matched by a commitment by the company totaling more than $182,000. Training was provided through the New Jersey Institute of Technology for 165 current workers and for 50 additional workers hired by the company.

The result of the training was very positive. Howmedica saw a 13 percent increase in its production, workers who received the training saw their wages increase eight percent and 50 new jobs were filled.

Schein Pharmaceutical, Incorporated is a leading company in developing, manufacturing and marketing generic drugs. When Schein sought to expand their operations they considered staying in New York or moving to New Jersey or Connecticut.

The company sought training for 68 workers when it moved to Florham Park. A customized training grant provided $498,403 and the company provided $468,552 for the program. The result is that the company has added an additional 60 workers to its work force bringing a total of 130 jobs to New Jersey.

Monroe Systems for Business, Incorporated also was awarded a customized training grant. The Morris Plains company is a marketing and service company for office equipment and has been headquartered in New Jersey since 1912. Monroe also has a plant in South Carolina.

When Monroe looked into expanding its facility, it faced a decision of whether to stay in New Jersey or consolidate in South Carolina. An economic development strategy meeting between Morris Area Development, Jersey Central Power and Light and the Department of Labor helped convince Monroe to remain in our State.

A customized training grant of $175,600 was matched by the company with a commitment of $324,540 toward on-the-job training for 129 employees, 72 of whom were new hires.

Our experience has been that in order to achieve the aims of customized training, true partnerships are needed. And over the past two years, we have attempted to encourage, develop and nurture such partnerships. By law, the Department of Labor is the lead agency in administering customized training. But our Customized Training staff rely on a network of private and public organizations that "speak the language of business" to encourage and assist employers to make the transition to modern production practices. Representatives of the New Jersey Institute of Technology, various community colleges, Chambers of Commerce and cooperating businesses are all willing to share their expertise and experience.

In addition, the Office of Customized Training, through the Business Resource Network, has developed close ties with the departments of Commerce and Economic Development, Education and Higher Education, and the New Jersey Economic Development Authority, to coordinate efforts to assist employers. They help employers in securing affordable capital for needed improvements, expansion and training to stimulate jobs and investments, as well as to increase competitiveness through a more highly skilled work force.

The Business Resource Network also works to identify and market programs available to employers, address employers' work force concerns and to act as an early warning system to identify employer human resource needs. By contacting any agency in the Business Resource Network, an employer can obtain information about all of the assistance available for business retention and expansion -- the "one-stop shopping" concept in action.

To date, more than 400 businesses have requested information and services through the Business Resource Network and there are numerous success stories resulting from its efforts.

One is Allied Signal Aerospace in Teterboro which has decided to remain in New Jersey instead of moving to a nearby state. Although some downsizing is taking place because of Defense Department cutbacks, New Jersey is working to help Allied Signal position itself for new non-defense related work. This work, together with remaining Defense Department contracts, should help stabilize employment at the Teterboro facility.

Another success story involves a large service sector employer who has decided to remain and expand its worldwide information system in New Jersey. The company had considered an out of state location for its information system. Because the decision has not been announced yet, I am unable to publicly announce the name of the company. However, I can tell you that the decision will result in the creation of 700 new jobs in New Jersey by 1997.

While our initiatives -- particularly customized training -- are providing a valuable resource for business retention, expansion and international trade expansion, we are not content to enjoy our present successes. We are in a continuing process of evaluating and analyzing the results of each program to see how we can do it better the next time. As an example, we are now exploring ways that we might focus funds to support employers located in state Urban Enterprise Zones.

We're encouraged by the progress we've made, but there's much more to be done. The vitality of our businesses and the future of our workers depend upon it.

STATE OF NEW JERSEY
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF ECONOMIC DEVELOPMENT
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STATEMENT OF JOSEPH T. GROSSI DIVISION OF ECONOMIC DEVELOPMENT NEW JERSEY DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

BEFORE THE ASSEMBLY TASK FORCE ON BUSINESS RETENTION, EXPANSION AND EXPORT OPPORTUNITIES

CHUBB & SONS, INC. WARREN, NEW JERSEY

MARCH 29, 1994

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MR. CHAIRMAN AND MEMBERS OF THE TASK FORCE, I AM PLEASED TO BE HERE TODAY TO SPEAK WITH YOU ABOUT THE EFFORTS THE DEPARTMENT OF COMMERCE AND ITS DIVISION OF ECONOMIC DEVELOPMENT ARE TAKING TO ASSIST BUSINESS.

AS YOU ARE AWARE, THE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT WAS ESTABLISHED TO ACT AS AN ADVOCATE FOR BUSINESS AND TO SERVE AS A CATALYST FOR ECONOMIC GROWTH AND DEVELOPMENT. THE DEPARTMENT IS RESPONSIBLE FOR FOUR MAJOR PROGRAM AREAS: ECONOMIC DEVELOPMENT; INTERNATIONAL TRADE; TRAVEL AND TOURISM; AND SMALL, WOMEN AND MINORITY OWNED BUSINESS. THE DEPARTMENT OF COMMERCE IS NOT A REGULATORY AGENCY. HOWEVER, PART OF OUR CHARGE IS TO SUPPORT PUBLIC POLICY THAT CONTRIBUTES TO NEW JERSEY'S COMPETITIVENESS TODAY, AS WELL AS TO THE OPPORTUNITIES OF TOMORROW.

OUR CHALLENGE IS TO HELP BUSINESSES GROW AND EXPAND, ENHANCE EMPLOYMENT OPPORTUNITIES, STRENGTHEN OUR INFRASTRUCTURE, TRAIN OUR WORKERS, REFORM THE REGULATORY PROCESS AND IMPROVE OUR TAX STRUCTURE.

THE DIVISION, THROUGH ITS <u>OFFICE OF BUSINESS DEVELOPMENT</u>, PROVIDES SERVICES RELATED TO THE RETENTION AND EXPANSION OF EXISTING

BUSINESS AND THE ATTRACTION OF NEW COMPANIES TO NEW JERSEY. STAFF PROFESSIONALS ASSIST COMPANIES WITH SITE SELECTION FOR EXPANSION OR RELOCATION PLANS; PROVIDE INFORMATION ON AVAILABLE FINANCING PROGRAMS AND JOB TRAINING; AND PROVIDE LIAISONS BETWEEN GOVERNMENT AT ALL LEVELS AND THE BUSINESS COMMUNITY.

WE HAVE BEEN ABLE TO MAXIMIZE ITS EFFECTIVENESS THROUGH COOPERATIVE PROGRAMS WITH COUNTY ECONOMIC DEVELOPMENT OFFICES AND UTILITY COMPANIES TO DEVELOP INTEGRAL PUBLIC/PRIVATE PARTNERSHIPS OF BENEFIT TO THE BUSINESS COMMUNITY. A NUMBER OF KEY INITIATIVES HAVE BECOME FULLY OPERATIONAL AND HIGHLY SUCCESSFUL.

* THE MUNICIPAL BUSINESS RETENTION AND EXPANSION PROGRAM (MBREP) IS A COOPERATIVE UNDERTAKING OF THEDEPARTMENT OF COMMERCE, N.J. BELL, AND PARTICIPATING MUNICIPALITIES, AND IS A MAJOR RETENTION INITIATIVE, WHICH HAS BEEN SIGNIFICANTLY UPGRADED. THIS PROGRAM PROVIDES A SURVEY ANALYSIS OF THE BUSINESS ENVIRONMENT AND BECOMES THE BASIS FOR ESTABLISHING AN ACTION PLAN FOR IMPROVEMENT. THE PROGRAM PROMOTES AN ENHANCED RELATIONSHIP BETWEEN THE BUSINESS COMMUNITY AND LOCAL OVERNMENT, ALLOWING THE FOCUS OF LIMITED RESOURCES ON PROJECTS IDENTIFIED AS MOST BENEFICIAL TO THE MUNICIPALITY.

* THE BUSINESS ENHANCEMENT PROGRAM (BEP), IS ANOTHER KEY PUBLIC/PRIVATE PARTNERSHIP WITH COUNTY GOVERNMENT AND PUBLIC UTILITIES. IMPLEMENTED IN 1991, BEP CREATED PARTNERSHIPS BETWEEN THE STATE, COUNTY GOVERNMENTS, AND THE STATE'SUTILITIES, INCLUDING PSE&G, JCP&L AND ATLANTIC ELECTRIC. APPROXIMATELY 300 UTILITY MARKETING PERSONNEL PROVIDE OUTREACH TO THE BUSINESS COMMUNITY ON AVAILABLE STATE ASSISTANCE PROGRAMS.

  THE DIVISION COORDINATES AND MONITORS STATE AGENCY RESPONSES TO COMPANY INQUIRIES TO ENSURE THAT TIMELY AND ACCURATE ASSISTANCE IS BEING PROVIDED. THIS PROGRAM IS NOW OPERATIONAL IN ALL 21 COUNTIES, WITH SEVERAL HUNDRED BUSINESSES RECEIVING INDIVIDUAL SERVICES ANNUALLY ON MATTERS RANGING FROM ENVIRONMENTAL CONCERNS, TAXES AND FINANCING TO WORKER TRAINING AND EDUCATION NEEDS.

* THE SITE SELECTION DATABASE IS A COMPUTERIZED INVENTORY OF REAL ESTATE AVAILABLE FOR INQUIRIES FROM BUSINESSES FOR LAND, OFFICE, WAREHOUSE/DISTRIBUTION AND MANUFACTURING SPACE. WITHIN THIS PROGRAM WE ALSO WORK CLOSELY WITH UTILITY COMPANIES AND THE COUNTY ECONOMIC DEVELOPMENT OFFICES TO ENSURE THAT THE CLIENT IS SHOWN THE MOST SUITABLE SITES. THERE ARE PRESENTLY MORE THAN 1,600 REAL ESTATE LISTINGS ON THIS SYSTEM.

THE SECOND OF THREE OFFICES WITHIN THE DIVISION, THE OFFICE OF BUSINESS ADVOCACY, ASSISTS BUSINESSES WITH REGULATORY CONCERNS BY INTERACTING WITH FEDERAL, STATE, COUNTY AND MUNICIPAL AGENCIES ON BEHALF OF THE BUSINESS COMMUNITY. THE OFFICE HAS DEVELOPED A NUMBER OF SERVICES TO ASSIST COMPANIES IN GETTING THROUGH THE PERMIT PROCESS.

* THE ONE-STOP PERMIT IDENTIFICATION SYSTEM IS A UNIQUE METHOD OF IDENTIFYING ALL STATE PERMITS REQUIRED FOR CONSTRUCTION PROJECTS. A PERMIT FACILITATOR FROM OBA IS ASSIGNED TO ASSIST EACH PROJECT THROUGH THE REGULATORY MAZE

* THE ONE-STOP LICENSING CLEARINGHOUSE IS A VITAL SERVICE OFFERED BY THE OFFICE. UTILIZING A DATABASE OF LICENSING REQUIREMENTS, OBA IDENTIFIES LICENSES AND APPROVALS REQUIRED FOR NEW BUSINESSES AND PROFESSIONALS. MORE THAN 5,000 CLIENTS WERE SERVICED LAST YEAR THROUGH THE TOLL-FREE HOTLINE.

* BUSINESS ADVOCACY'S MARITIME COORDINATION FUNCTION SERVES AS THE FOCAL POINT FOR THE ENHANCEMENT OF NEW JERSEY'S PORTS AND FOR ATTRACTION AND RETENTION OF THE MARITIME INDUSTRY IN THE STATE. THIS FUNCTION ALSO PREPARES AND PRESENTS TESTIMONY IN WASHINGTON, D.C. ON BEHALF OF THE STATE TO OBTAIN FEDERAL FUNDS FOR CIVIL WORKS PROJECTS. THIS TESTIMONY, WHICH INCLUDES NAVIGATION, SHORE PROTECTION, BEACH EROSION, FLOOD CONTROL AND WATER SUPPLY PROJECTS, WAS PRESENTED LAST WEEK AND REQUESTED MORE THAN $85 MILLION FROM THE FEDERAL GOVERNMENT TO SUPPORT PROJECTS WHICH IMPACT EVERY COUNTY OF OUR STATE.

* THE BAYSHORE DEVELOPMENT OFFICE WAS REOPENED IN JANUARY 1992. THE OPERATION AND STAFFING IS A FUNCTION OF THE DIVISION AND IS A COOPERATIVE EFFORT BETWEEN THE STATE, THE COUNTIES OF MIDDLESEX AND MONMOUTH, AND THIRTEEN BAYSHORE COASTAL COMMUNITIES. THESE COMMUNITIES ARE BEING ASSISTED IN IDENTIFYING REALISTIC OPPORTUNITIES FOR DEVELOPMENT THAT WILL STIMULATE ECONOMIC GROWTH, INCLUDING THE PROTECTION AND EXPANSION OF FISHING AND RECREATIONAL INDUSTRIES, TOURISM, EMPLOYMENT AND SOCIAL BENEFITS TO THE REGION. THE STATE HAS CONTRACTED WITH THE FIRM OF ROTHE-JOHNSON ASSOCIATES OF EDISON TO PREPARE AN ECONOMIC DEVELOPMENT IMPLEMENTATION PLAN FOR THIS REGION.

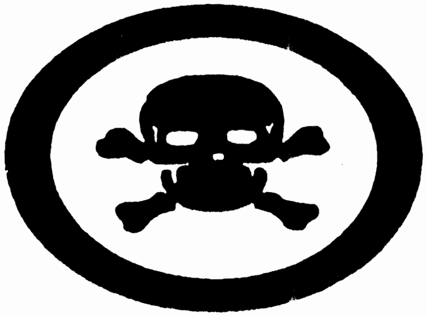
THE HIGHLY SUCCESSFUL NEW JERSEY URBAN ENTERPRISE ZONE (UEZ) PROGRAM, WHICH THE LEGISLATURE CREATED, HAS BEEN AN EFFECTIVE TOOL IN ATTRACTING BUSINESS TO URBAN LOCATIONS. TEN INITIAL ZONES WERE ESTABLISHED TO PROVIDE SIGNIFICANT INCENTIVES AND BENEFITS TO BUSINESSES THAT LOCATE WITHIN THE ZONES OF BRIDGETON, CAMDEN, ELIZABETH, JERSEY CITY, KEARNY, MILLVILLE/VINELAND (JOINT ZONE), NEWARK, ORANGE, PLAINFIELD AND TRENTON.

THE SUCCESS OF THIS PROGRAM IS EVIDENT BY THE LEGISLATURE'S ACTIONS TO INCREASE THE TOTAL NUMBER OF ZONES TO 20. SIX ZONES ARE PRE-DESIGNATED: PATERSON, PASSAIC, PERTH AMBOY, PHILLIPSBURG, LAKEWOOD AND ASBURY PARK/LONG BRANCH (JOINT ZONE). THE REMAINING FOUR ZONES ARE SUBJECT TO A COMPETITIVE APPLICATION PROCESS.

THROUGH THESE PROGRAMS THE DIVISION OF ECONOMIC DEVELOPMENT WILL CONTINUE TO STRENGTHEN ITS POSITION AS THE FOCAL POINT FOR BUSINESS ATTRACTION AND BUSINESS RETENTION ACTIVITIES AROUND THE STATE. DEVELOPING PUBLIC/PRIVATE PARTNERSHIPS WILL REMAIN A PRIORITY AS THESE RELATIONSHIPS ARE AN EFFECTIVE METHOD OF DETERMINING THE NEEDS OF THE BUSINESS COMMUNITY IN TIMES OF LIMITED RESOURCES.

ON BEHALF OF COMMISSIONER MEDINA AND MYSELF, I WANT TO EXPRESS OUR APPRECIATION TO THE TASK FORCE FOR PROVIDING THE OPPORTUNITY FOR US TO PRESENT AN OVERVIEW OF OUR BUSINESS RETENTION AND EXPANSION PROGRAMS.
THANK YOU.

Major Risks In International Trade



Commercial Credit Risk

- Financial Risk
- Acceptance Risk

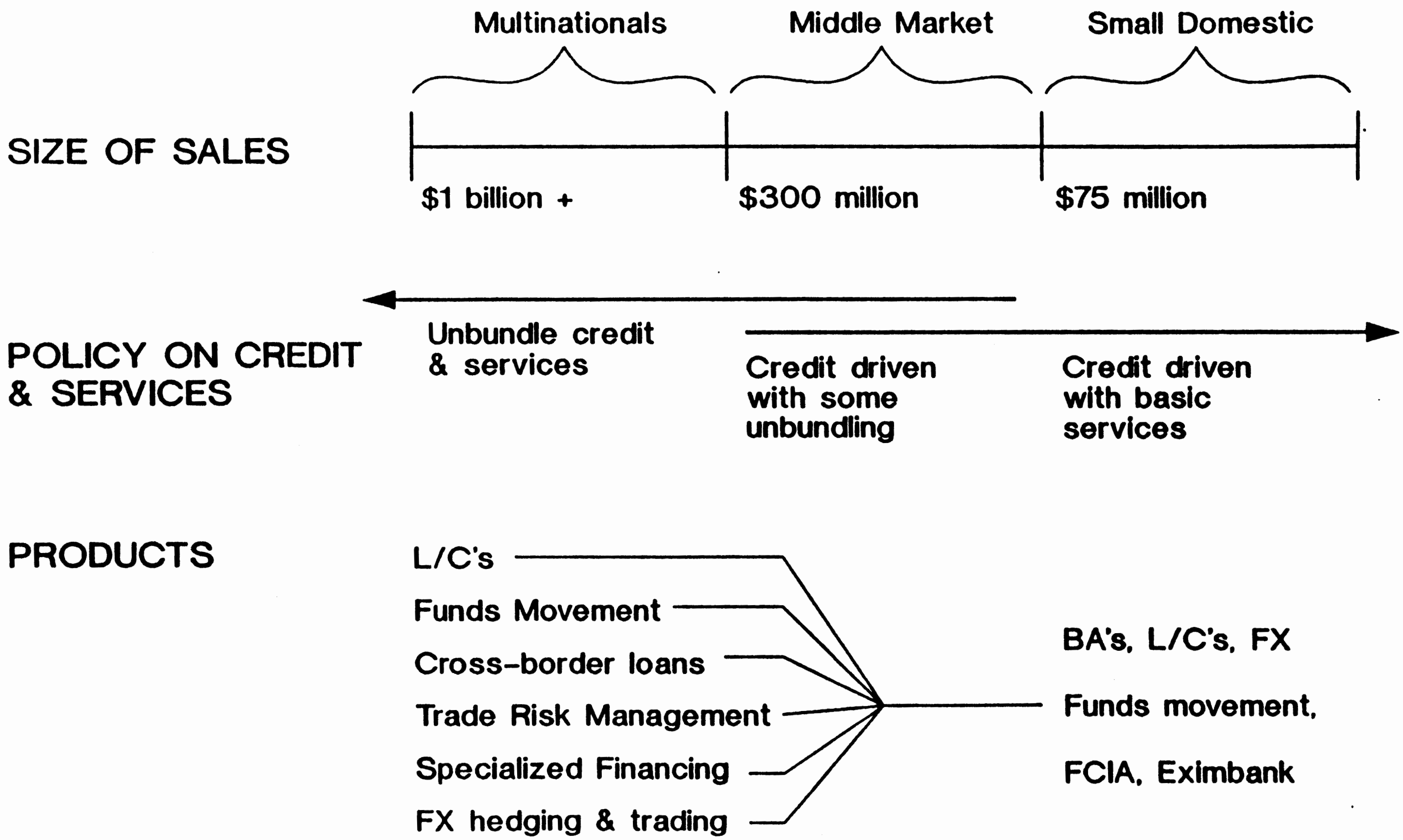
Political Risk

- War, Civil Disturbance, Revolution
- Transfer Risk
- Other Sovereign Risk

Documentary Risk

Interest Rate Risk

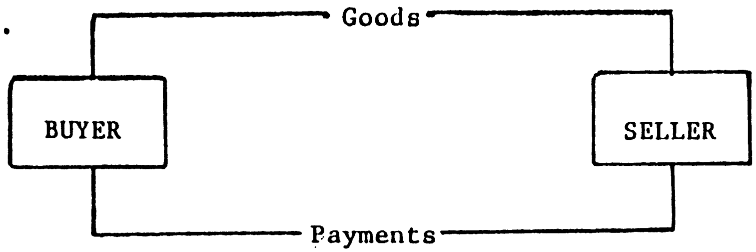
Foreign Exchange Risk


Multinationals
Middle Market
Small Domestic
SIZE OF SALES
$1 billion +
$300 million
$75 million
POLICY ON CREDIT & SERVICES
Unbundle credit & services
Credit driven with some unbundling
Credit driven with basic services
PRODUCTS
L/C's
Funds Movement
Cross-border loans
Trade Risk Management
Specialized Financing
FX hedging & trading
BA's, L/C's, FX
Funds movement,
FCIA, Eximbank

TERMS OF TRADE	MAJOR ISSUES

1. CASH IN ADVANCE......

2. IRREVOCABLE L/C......
   - Confirmed
   - Advised
   - Sight/Time
   - Deferred



3. COLLECTION...........
   - Document Against Payments
   - Document Against Acceptances

4. OPEN ACCOUNT.........