974.90
I42
1983r

JOINT PUBLIC HEARING

before

NEW JERSEY SENATE STATE GOVERNMENT, FEDERAL AND INTERSTATE RELATIONS AND VETERANS' AFFAIRS COMMITTEE

and

NEW YORK STATE ASSEMBLY COMMITTEE ON CORPORATIONS, PUBLIC AUTHORITIES AND COMMISSIONS

on

SENATE, NO. 1779

Held:
September 27, 1983
Meadowlands Environmental Center
Lyndhurst, New Jersey

MEMBERS OF NEW JERSEY SENATE COMMITTEE PRESENT:

Senator Wynona M. Lipman, Chairwoman

MEMBERS OF NEW YORK ASSEMBLY COMMITTEE PRESENT:

Assemblyman G. Oliver Koppell, Chairman

ALSO PRESENT:

Joseph P. Capalbo, Research Associate
Office of Legislative Services
Aide, Senate State Government, Federal and
Interstate Relations and Veterans' Affairs Committee

Members of Assemblyman Koppell's staff:

Irwin Landes, Special Counsel to the Speaker
of the New York State Assembly
Milton Amgott, Committee Counsel
Rita Gordon
Marcia Allina

New Jersey State Library

* * * * * * * * * * *

I N D E X

	Page
Senator Carmen A. Orechio District 30	3
Herbert Ouida Project Director Port Authority Trading Company	6
Wally Frank Law Department Port Authority Trading Company	13
Ralph H. Chew President National Association Export Companies (NEXCO)	30 & 1x
Earl Holsapple President Bancorps International Trading Company (BITCO)	38
Dominic Policano Vice President First National State Bank	43
George Nagel Director of Economic Research New Jersey Department of Commerce and Economic Development	51
Andrew Ferretti President Ferrex International	54
Harold Ross Executive Vice President Gregg Company	59
Ole H. Nielsen First Vice President National Association Export Companies (NEXCO)	61

New Jersey State Library

INDEX (Continued)

	Page
Steven Bissenius Business-Government Relations Officer International Trade Administration United States Department of Commerce	64
Donald Scarry Director of Economic Research New Jersey Business and Industry Association	72
Alan Parter Deputy Commissioner New York Department of Commerce	77
ALSO SUBMITTED:	
Statement of: Peter C. Goldmark, Jr. Executive Director The Port Authority of New York and New Jersey	17x

mjz: 1-96

ASSEMBLYMAN G. OLIVER KOPPELL (NEW YORK): Good morning, ladies and gentlemen. I am Assemblyman Oliver Koppell from New York. I am the Chairman of the New York State Assembly Committee on Corporations, Public Authorities and Commissions. This is a joint hearing, a relatively unique and rare occurrence, between New York and New Jersey. Unfortunately, Senator Lipman is apparently detained, perhaps stuck in traffic since we couldn't reach her either at her office or her home, but she is undoubtedly on her way. Since we have so many people here to testify, people who have busy schedules, we agreed -- the staff and I -- that we would start the hearing in her absence. Of course, I hope she will be here very shortly, and I kind of apologize that I am doing this as a guest from across the river. However, to accommodate everyone, we will start.

Let me first thank Senator Orechio for coming to testify. He will be the first to speak; I recognize his presence. Let me also recognize the presence of Joseph Capalbo, Committee Aide to the Committee that Senator Lipman heads, the Senate State Government, Federal and Interstate Relations and Veterans' Affairs Committee. With Mr. Capalbo are Kathleen Crotty from the Majority Staff, who helped to arrange the hearing, and Jim Carroll from the Minority Staff of the New Jersey State Senate.

Let me introduce our people now. To my right is Milton Amgott, who is counsel to the Assembly Committee on Corporations, Authorities and Commissions. My assistant, Rita Gordon, is sitting in the front row; she is in charge of the public authorities' work of the Committee, and, next to her, Marcia Allina, who helps with press relations and various other things.

This hearing is for the purpose of looking into the proposal of the Port Authority of New York and New Jersey to establish an export trading company. (Senator Lipman arrives at this point.) Senator, I just started; I'm glad you're here. Are you ready to start?

SENATOR WYNONA M. LIPMAN (Chairwoman): Yes, absolutely, but you go ahead.

ASSEMBLYMAN KOPPELL: This is a proposal that the Port Authority has made and, actually, it has been pending for some time. It was not acted upon in the last sessions of the New York nor the New

Jersey Legislatures, but it is to establish an export trading company under the broad authorization, I guess, of the Federal legislation, which authorizes the creation of export trading companies. Let me say without commiting myself, because the purpose of the hearing is to look into this legislation, that we have no preconceived position on it, neither I nor the members of my Committee, but we do have concerns. Obviously, we share the desire that is expressed in the preamble to the legislation, to stimulate exports through the Port of New York and New Jersey. We are concerned about that from a local point of view, in terms of the economies of the region, the economical development of the region and, also, from a national point of view, because it is clear that the stimulation of exports is an important national objective. However, we are concerned on a number of counts. We are concerned about whether or not this quasi-commercial role that the bill envisions moves the Port Authority away from what many of us have regarded as its principal mission, which is to develop the port and transportation facilities of the New York Port district.

We are concerned over the possible diversion of revenues from other projects that this proposal might entail. We are also very much concerned over the implications of this proposal for private industry. I am delighted that we have testifying today a number of representatives from the private sector, because we do not want -- in the name of helping private industry to grow and to prosper -- to inhibit that growth, nor provide unfair competition through a governmental entity. In reading the bill, the powers granted to the Port Authority are extremely broad.

Lastly, we have a concern over the ability of the Port Authority, through this legislation, to escape State and local regulation and taxation. It is quite clear if you read the language of the bill, that any activities of the Port Authority in the export trading field will be shielded against any improper regulations by the States or by the localities, and will be shielded from taxation by the States and by the localities. That is a concern to us both, because it may mean that important public objectives will be frustrated, and public revenues may be diminished.

So, those are some of our concerns about this, although I again say that at least from the New York point of view, we certainly endorse the objective of increasing exports from the port and from the United States to abroad. We look forward to hearing the comments of supporters today, as well as possible critics of the legislation. We take this hearing very seriously.

Let me just conclude by saying, I think in the last twelve months or so, my staff and I have established better and closer relations with the staff on the New Jersey side, and the members on the New Jersey side, than almost ever before. I am really delighted about that, because in this area of the Port Authority, which is so important in a number of ways, not only export trading, we must work together because both States have to pass any legislation that will affect the Port Authority. I look forward not only to cooperating here, Senator, but also in other areas. We look forward also, I might say, to a number of other hearings with you, and we hope we can reciprocate and invite you over to the New York side of the river soon, so you can see that we also have some nice views to offer.

SENATOR LIPMAN: Thank you very much, Assemblyman Koppell. I had planned to welcome the Assemblyman, but he had to welcome me to this hearing. I want to say I am very happy, all of us are, and the Senate President I would hope is, to have this kind of relationship with New York State. We understand that both Governor Kean and Governor Cuomo have agreed to support this legislation, because it requies bi-state approval. We know too, that we always think of the Port Authority as operating bridges, tunnels, airports and PATH, but we hardly ever think of its original and primary function, that is, to foster commerce in the port district. So for this reason, today we are happy to hear, to discuss and to examine Senate Bill 1779. Now, Senate President Orechio, are you ready?

S E N A T O R C A R M E N A. O R E C H I O: Yes, I am. Senator Lipman, Assemblyman Koppell, members of the New Jersey Senate State Government, Federal and Interstate Relations and Veterans' Affairs Committee and the New York Assembly Committee on Corporations, Authorities and Commissions: I am certainly very pleased to appear before you today, to discuss proposed legislation which would authorize

the Port Authority of New York and New Jersey to establish and operate export trading projects.

Before beginning the discussion on the export trading issue, I would like to extend an official welcome to Assemblyman Koppell and the members of his staff. Technically, this is known as the Meadowlands Environmental Center, but I like to refer to it as "Villa Scardino." I think as you approached the Center today, you saw a long, winding drive. You may have been preceded by garbage trucks, but it did give you the illusion of going into a villa. I might add, by the way, that Senator Scardino served in the Senate with distinction. He is a very, very close friend of mine, a man who left the Senate voluntarily, and who is doing an outstanding job here at the Meadowlands serving as its Executive Director.

I also want you to know that this complex is a great example of sound regional planning. It is also, certainly, an achievement that we are proud of. In addition to that, I think we probably will have the finest sports complex in the country, if not the world. We have hockey, as you know; we have basketball, we have football and, as soon as we get the baseball stadium fixed, we'll be in good shape. New York has been characterized as the sports complex of the world, but I think New Jersey is saying, "Make way for us."

ASSEMBLYMAN KOPPELL: You may be sorry you invited me out here, because we are going to go back there and try to do something about that.

FROM AUDIENCE: If you can find your way out.

SENATOR ORECHIO: I'm sure Senator Scardino will escort you.

For the past eighteen months, the issue of export trade has received a great deal of attention at legislative conferences and forums held throughout the country by both the public and private sectors. Its potential as a vehicle for economic expansion is widely recognized. The Wharton School of Economics has said that for each million dollars in exports, fifty-two new jobs will be created. The New Jersey Department of Commerce and Economic Development estimates that in New Jersey alone, there are probably 900 firms with export potential. Export trade will not only expand the markets for regional manufacturers, but will also contribute to the national balance of

payments. A number of Federal and State legislative initiatives are further evidence of this recognition. First, the passage of the Export Trading Company Act by the United States Congress in October, 1982 -- this legislation, which established an Office of Export Trade in the Department of Commerce, expanded financing opportunities for export trading companies and modified antitrust laws with respect to export trade, and has removed many of the impediments to private investment into the creation of export trading companies. It has led, in New Jersey, to the formation of the Bancorps International Trading Company, known as BITCO, a joint venture by three of the State's financial institutions.

Second, was the introduction of the New Jersey General Assembly's legislation which authorized the creation by the State, and by certain local and county governments, of export trading authorities. Third, was the introduction in our respective states of the legislation under discussion today, a bill which in general terms would authorize the Port Authority of New York and New Jersey to establish, operate and participate in export trading projects to promote, preserve and protect trade and commerce in the port district.

As I am certain that each of you is familiar with the legislation, I will not take the Committee's time for a specific description of its provisions. Generally, I would urge your approval of legislation expanding the Port Authority activities in this area. At the same time, I recognize that members of these Committees, and others, particularly in the private sector, have strong concerns about the broad extension of authority which this bill provides, and that legislators in both states are concerned about the impact the expansion of the Port Authority's export trade activities would have on its current obligations. I am confident, however, that these issues, which have been brought to my attention, and which are likely to be raised in testimony before your Committees, can be resolved.

I think these joint hearings can be the vehicle for developing a proposal which could be compatible with the interests of the private sector, as well as with the interests of the Port Authority, and which would incorporate the type of safeguards with respect to Port Authority activities which legislators in our

respective states continually seek when considering Port Authority issues.

I urge your Committees to undertake that responsibility, because I think it would be a serious error to lose sight of the Port Authority's unique ability to play a significant role in the expansion of export trade in this region.

In conclusion, I extend to both Senator Lipman and Assemblyman Koppell my congratulations for their initiative in scheduling this joint hearing of their respective Committees. Of the legislators here today, Assemblyman Koppell is probably the only one among us who can recall the summit meeting which took place in March of 1971. As Senate President, I think that is a practice which should be encouraged, and which should occur far more frequently than it has in the past. I believe that more direct communication between the legislators in the two states will lead to a better understanding of our respective concerns, as well as to a greater degree of cooperation in reaching an agreement on Port Authority issues.

Thank you, Madam Chairman, Committee members and Committee staffs, for the cooperation and interest evidenced by your attendance here today.

ASSEMBLYMAN KOPPELL: Thank you very much, Senator.

SENATOR ORECHIO: I also want to introduce Herb Ouida, who is the Port Authority's expert on export trade activities. I have another commitment, but he will remain here in case anyone has any questions he wants answered. He certainly has the technical information and knowledge, and is capable of making those kinds of responses.

SENATOR LIPMAN: Thank you, Senator Orechio. Mr. Ouida, do you have a statement, or are you just going to be our resource person?

H E R B E R T O U I D A: I have a statement which was prepared for the Executive Director of the Port Authority, Peter C. Goldmark, Jr., who, unfortunately, could not be here today. I am not going to read the statement; I do not think that would serve any purpose. (Senator Orechio leaves at this point.) Thank you, Senator Orechio.

ASSEMBLYMAN KOPPELL: Thank you, Senator Orechio; thank you very much.

MR. OUIDA: Senator Lipman, Assemblyman Koppell, let me just say at the outset, that the Port Authority welcomes this kind of cooperation. We have oftentimes seen a bill--

ASSEMBLYMAN KOPPELL: Before you start -- I don't mean to interrupt you -- but, may we have the copies of the statement?

MR. OUIDA: Okay, sure.

ASSEMBLYMAN KOPPELL: I'll just glance at it as you are speaking, and maybe I'll have some questions.

MR. OUIDA: Sure. We have often seen a bill tortuously make its way through one state, only to see issues raised in the other state, and we think this could be properly addressed with this kind of cooperation. We hope that this bill, and the kind of cooperation that we are seeing here, will serve as a prototype for other Port Authority legislation.

Now, Senator Lipman, I am really at your disposal. I can either summarize Mr. Goldmark's statement, or I can answer questions.

ASSEMBLYMAN KOPPELL: Why don't you summarize the statement while we look at it, and then maybe we'll have some questions.

MR. OUIDA: All right. I think in summarizing the statement, I will immediately address the issues that Assemblyman Koppell raised. Why is the Port Authority of New York and New Jersey engaged in what some see totally as a commercial type of endeavor, a private sector endeavor? Well, I think we start with the Federal Export Trading Company Act, and ask ourselves the question there as to why the Congress, in its wisdom, specifically mentioned and recognized that port authorities could participate in trading companies. What was the intent of the Congress? What is the situation?

The situation is that the country has seen a doubling of its deficit, from last year to this year, in trade -- its merchandise deficit -- and anticipates that that deficit next year will be $100 billion. That is a serious situation for us. For a long time, we could be content with our own market and with our competitive position in the international market, but that is no longer the case. We are now in a global economy, we are in a situation where we are not only competing overseas, we are competing for our own market.

What was, in fact, the Federal intent? The Federal intent was recognition of what was available, that export management companies were here, that they serve a very valid and very important purpose, and they continue, and that there was a need for an infusion of something new. What is that something new? First, that banks, for the first time in the history of this country, would be allowed to participate, through holding companies, in export trading companies. It is revolutionary in our history, that banks could play an equity role in that kind of an entity.

Secondly, we said to ourselves, "Let's unshackle ourselves with respect to antitrust. We no longer can be so concerned. When the world doesn't worry about antitrust, we in international competition must provide a means, a mechanism, so that if companies join together, and work together, they will no longer be concerned with antitrust problems."

Thirdly, we said, "Let us use all our resources. Let us use port authorities. Let us use economic development agencies. Let us use cities and localities, to help to identify, not the companies which are exporting that are using the existing mechanism, but new companies, companies that are not able to export today, but that, in fact, have exportable goods." The question before the house is, what don't these companies export? Why is the existing network inadequate? And, the answer is, they do not export because, in fact, they do not have an international sales division. They do not have a presence overseas. They cannot afford to enter this marketplace, because they must have, by cost alone, inadequacy to do the job.

The trading company mechanism, we hope, is an answer. It is not the only answer, and it may be that there is more fanfare here than reality, to be honest with you, because the situation is that as long as the dollar remains as strong as it is today, as long as, in fact, there is an international recession, those factors will impact upon trade, regardless of who is entering into it.

However, what the Congress hoped, was that by placing these small and medium-sized companies into a trading company, the trading company would become the international sales division for each of those small and medium-sized businesses. We are trying to do that. What do

we do? What is, in fact, intended? We are trying to identify overseas market opportunities for them, to put together market entry strategies, to help them to implement that market entry strategy by doing everything, the documentation, the transportation, the financing -- the full network they would need, which they could not do alone, but which they could do, possibly, combined in a trading company.

We at the Port Authority should be in the trading company business, and Assemblyman Koppell specifically (inaudible) up an original mandate for port and transportation facilities to encourage that trade, to make that port vital. The trading company mechanism, we hope and we believe, has an answer to keep that port vital. We are, in fact, not the only port authority in the United States realizing that in this competitive situation, to protect our port, to protect the Port of New York, we have to get people in the international trade business. We have to do everything we can to make sure that we are competitive.

The Port of Portland is the first port in the United States to pass a trading company bill. The port in Virginia, the port in Seattle, the ports in Miami, all throughout the United States, are saying to themselves, "We want to be there." We are hopeful that New York and New Jersey will seize the opportunity created by the Federal act to allow the Port Authority to participate.

What have we done to date? How are we organized? To date, we have had a great many activities in international trade. Since 1962, when the two States in their wisdom, told us, and mandated that we operate the World Trade Center, we started to get engaged in a very meaningful way in world trade. What do we do in world trade? We run trade missions. We take people on very targeted missions in the private sector to markets we believe they can penetrate. We organize the missions; we use our overseas offices in Zurich, Tokyo and London to screen bias for those particular purposes. We have a World Trade Institute. Last year, 8,000 people came to the World Trade Center to learn about international trade. Over 600 courses are offered there. We have an information system. If anyone has particular questions about a market, we provide that information through our information system.

All of this serves the market very well and helps small and medium-sized businesses, but we were not satisfied that we were doing enough. We had to get closer to those small businesses. So, we went out to small and medium-sized businesses in New York and New Jersey, and we said to them, "We would like to help you get involved in international trade." Within our existing legislative authorization, we entered into export marketing agreements with those companies, under which we do not receive any fee unless there is a sale. Most of the companies we represent to date have thirty-five or fewer employees. Most of our companies had less than $5 million in sales. They are companies that were not in these markets. Now, in the past, those who have criticized what we have done, have pointed to one particular company -- am I more than five minutes? You can see when I get started that I have a lot to say.

SENATOR LIPMAN: Go ahead; I didn't mean to stop you.

MR. OUIDA: No, that's all right. There has been one particular company they have pointed to, and they have said, "Well look, you have a $600 million company, Herb. When you go around telling people you have only small companies, why do you have that big company?" It's true that we have a large company we represent. We represent that company because, in fact, the company came to us and told us they could not gain entry into one particular region of the world, the Caribbean. They said, "We would like you to help us." We only took that company on because that company helps to make sales for the smaller companies, because, in fact, they became a leader, and because they made possible the economies of sales.

ASSEMBLYMAN KOPPELL: What is that company?

MR. OUIDA: C-B Foods. It is a New York company which is in canned vegetables and fruits. Now, that one company, however, serves a very valid purpose for our activities, because it helps us, as I say, to work with our smaller companies.

The truth of the matter is, that this is a very difficult time for all of us, and I think we need to work together. We want to help the private sector. When someone says to me, "Herb, you are competing with the private sector," I say, "Who is the private sector? Aren't those seventy manufacturers that we represent the private

sector? Aren't they important, when, in fact, they came and said, 'We would like this service. We need to have a developmental role played by the government to help us,' just like their overseas counterparts have, just as is done throughout the world." We say that that is the private sector. We also say the shipping industry is the private sector; we say the insurance industry is the private sector; the banking industry is the private sector. One small segment of the exporting industry, the exporting management companies, have to some degree indicated that they feel we are in competition with them. Our answer to them is very straightforward. We want to gain entry for these companies and, in fact, we hope to work with these export management companies to penetrate new markets. If, in fact, we create jobs and we promote commerce for the private sector, for our companies, we think our job will be done. We should do it in a developmental role; that is not being done. We should address the concerns Congress had through this trading company mechanism.

"What does this bill do that we are not already doing?" you might ask. What does it do? It does one thing. We, in fact, provide full services, with the exception of financing. We do not finance the transactions. We do not play an equity role. If you ask me, "What is the key need for smaller companies?" that is the area.

Now, how do we intend to do this? The question is, are we going to use all the Port Authority's resources in this trading company? Is this being done in a way that risks the Port Authority? Our answer is an unequivocal "no." Let me tell you our scheme. Let me tell you, in fact, what we have done to date.

There has been talk throughout the United States about forming state Eximbanks, where every state would finance exports through its own Eximbank, similar to what the United States has. We looked at that proposal and we said, "That may very well be good, but we think we should use the existing resources of the United States." So, we went to the Eximbank, and we said, "We would like to use the United States government to help finance New York and New Jersey firms." Eximbank has always been criticized that it only finances the big transactions; it doesn't work with the smaller companies. Eximbank said, "Boy, you know, the Port Authority, that makes sense.

We might not work with those firms; we might not finance those firms, but with the Port Authority involved, let's see if we can find a way to help New York and New Jersey manufacturers."

So, what have they done? They have an insurance policy under the FCIA, the Foreign Credit Insurance Association, under which they insure against political and commercial risk. They have, in negotiations with us, and we hope that this will be approved by their Board of Directors within the next three weeks, issued a master policy to the Port Authority, issued a policy to us, which will, in fact, help our companies to be insured against the risk. For example, if there is a currency freeze in a particular market, or if there is, in fact, a bankruptcy situation, not for the Port Authority, not to develop the Port Authority's business, but to let us be the conduit to help these smaller firms, just think about what that holds. We would be able to help these smaller companies make sales with a minimum of risk, because we would be insured by the United States of America. That is the kind of thing that we could make possible through a public trading company.

Look, the truth of the matter is that the way trade is done throughout the world is with the public sector involved. I can tell you time and time again that foreign buyers, public and private, have come to the Port Authority and said, "We feel comfortable. Here is a smaller company which we don't know. We don't even want to make the check payable to them, but with the Port Authority's presence, and using this capital engine for jobs and for commerce, something begins to happen. We implore you to let this be, to use this capital engine that you have in this agency, use it for your smaller companies, for your medium-sized companies, so we can fulfill that role."

Thank you very much.

SENATOR LIPMAN: Assemblyman, do you want to ask Mr. Ouida any questions?

ASSEMBLYMAN KOPPELL: Yes, I have some questions.

SENATOR LIPMAN: Go ahead.

ASSEMBLYMAN KOPPELL: Mr. Ouida, let me first ask about your current activities. Under what authorization does the Port Authority enter into these marketing agreements with the seventy companies? What is your authority?

MR. OUIDA: Well, I am a lawyer, as well as an export trading company, but I have with me, Mr. Wally Frank from our Law Department, and I would like to have him step forward if there are going to be-- Let me just say this, under our economic development legislation and under our World Trade Center legislation, there is a responsibility to promote and protect the commerce of the Port of New York. We do that by these missions, by this information system and by this institute under that legislation. We see this as an extension of that, that, in fact, without playing an equity role, we are promoting the Port of New York by helping small and medium-sized companies to get into the export business.

ASSEMBLYMAN KOPPELL: I don't want to get involved in a legal debate at this hearing, but I have asked Milton Amgott, our Committee counsel, to do a memo to me on the authorization for the present activities. I would ask Mr. Frank if he would write a memo to Mr. Amgott, indicating what the source of the authority is.

W A L L Y F R A N K: Fine, I will be glad to do that.

SENATOR LIPMAN: Can you circulate that to New Jersey?

MR. FRANK: Oh, sure.

ASSEMBLYMAN KOPPELL: Because I have some doubt as to whether -- I am not saying whether it is good or bad -- but, I have some doubt as to whether that was really authorized. Let me ask you a few different questions. First, in a general way, you enter into a marketing agreement with one particular company. Do you ever enter into any -- do you insert into those marketing agreements, or do you contemplate any kind of exclusive dealing provisions? For instance, you enter into a marketing agreement with -- I'll make it hypothetical -- the Apple Computer Company, when it was little, it has gotten big in three years -- but, Apple, and you are going to sell Apple computers in Europe. Do you agree that you won't sell Compact Computers, or Commodore Computers?

MR. OUIDA: Yes.

ASSEMBLYMAN KOPPELL: You do?

MR. OUIDA: Yes.

ASSEMBLYMAN KOPPELL: So, the services of the Port Authority in the computer area would only be available to Apple?

MR. OUIDA: Let me just say this. That is no different, Assemblyman Koppell, than any other service that we provide. There are some services which are only available to the first person you are going to do business with. We, in fact, receive from these companies an exclusive to be their export marketing representative. We could not take competing lines.

ASSEMBLYMAN KOPPELL: Well, you could, if you didn't do it on an exclusive basis. Right?

MR. OUIDA: Well, I don't think you would have any company wanting to work with you in the real world without that exclusive. In other words--

ASSEMBLYMAN KOPPELL: Not necessarily.

MR. OUIDA: Let me give you an example; the companies insist on it. A small business says to me, "Look, Herb, I want you to be my exclusive export marketing representative, but if you get an order for a particular product, who are you going to serve?" You know, you--

ASSEMBLYMAN KOPPELL: If someone is interested in computers, I mean, if you are just a service entity, you could say, "Well, we have six or seven computer companies that might be appropriate," and give them one of them.

MR. OUIDA: I don't think you would be effective that way; I don't think you would really make a difference if you were just passing along. Let me tell you the way we work, Assemblyman, so you will be clear. We hope to produce purchase orders for these companies. These companies are not in a situation where they want just an education. We are really trying to be bottom line for these companies, so that the people who we send overseas for these companies, for these New York and New Jersey companies, will say to them, "Hey look, we have particular interest in your product. Here is the purchase order; here is the way you do it." That is the way to get these companies started.

ASSEMBLYMAN KOPPELL: Now, take a company like the Apple Computer Company. Let's take the Apple Computer Company and the Commodore Computer Company. That would be a good example. You sign an agreement with Apple, in my hypothetical example, to be their computer marketing outfit. How do you think the head of Commodore feels when Apple, under your legislation -- especially let's assume the

legislation is in place -- Apple not only has all the people of the Port Authority there to help them, but now it has a billion dollar financing potential, because the Port Authority has billions of dollars. It will have the ability to finance, you know, way beyond any competitor, maybe even more than IBM, or equivalent to IBM. Don't you think the Commodore people might be a little bit upset that a public agency like the Port Authority, which exists because it receives sort of quasi-public revenues, tolls, fees -- because of franchises it has -- would be using those monies to back up a competitor? How do you justify to Commodore that the Port Authority's assets are all behind Apple?

MR. OUIDA: If I were company "X," and I was being helped by the Port Authority, or rather "Y" company, not being helped, I would say, "Well, that's not fair. This is unfair competition." But, let me just give you an analogy here. When the Port Authority makes space available in the World Trade Center, or at the bus terminal, the same thing happens everyday. In fact, Walgreen's may go into the bus terminal, and Rexall may be the one that says, "Gee, I wish I was the guy in the bus terminal. I wish I had that opportunity." It happens everyday, when you are a public sector entity trying to make a difference.

Let me tell you something, we don't turn--

ASSEMBLYMAN KOPPELL: (interrupting) But, wait a minute--

MR. OUIDA: Assemblyman, let me just finish the answer. If another computer company comes to us and we already have-- Just to give you an idea what happens, you know, I am the Project Director, and I can tell you. I am not here on an academic exercise. I direct this activity; I am responsible for it; and, I know that when we do get a competing line, we, because there is a variety of services, try to help that company as well. It may be that we cannot provide the same service, but let me give you an example. We have, all the time, trade leads that we get as a result of our work. If, in fact, the particular company we have is not able, we will go to an export management company with it, we will go to a private sector company with it -- remember, we are a public entity. Our mandate is to promote and protect this port, and however we get that done we're satisfied, whether or not it is us

directly. So, even in that instance where we may have a particular type of service available to one company, that doesn't mean that if another company comes in, it is turned away. There are a variety of ways to--

ASSEMBLYMAN KOPPELL: But, who makes the decision of which company you are going to serve? When you talk about renting at the bus terminal, I know that over the years I have always been critical and insisted on a competitive process, and I have been promised by the Port Authority that you use some sort of competitive criteria. How do you decide which computer company you are going to serve, or which soap company, or which food company? How do you make that decision?

MR. OUIDA: I'll tell you how. It is very direct, because, in fact, we do not do it with any discrimination. It is done on a very rational basis. We sent out, about a year and a half ago, in anticipation of the Federal legislation -- we knew the Federal law was coming down, we knew that port authorities would be invited to participate -- we went out and said to ourselves, "What is manufactured in New York and New Jersey that can be sold overseas?" We picked about seven or eight product areas. Then we went to a variety of firms -- not only one firm in any particular industry -- and we said to them, "We would like to make this service available." Not everybody said "yes." Remember, we were targeting the smaller companies, we were targeting the firms that were new to market and, in fact, we made that service available to perhaps five or six companies in a particular product line. It may be that one company was more competitive, or one company was more interested. A variety of things entered into that decision, but it was often on a nondiscriminatory basis.

Incidentally, if we get the legislation, the problem is over, because if we get the legislation, then a true trading company buys in its own account. Then you source from the most competitive source, and sell in the marketplace in a way that makes the most commercial sense, or the most competitive sense. But, that is the way the decisions are made.

ASSEMBLYMAN KOPPELL: Let me understand this. How long are your marketing agreements, the present ones? How long do they last?

MR. OUIDA: It varies, Assemblyman. Some of them are for a three-year period; some of them are on a sixty-day basis, that is, either side can terminate in sixty days.

ASSEMBLYMAN KOPPELL: Let's assume--

MR. OUIDA: Let me add one thing. The target set -- we didn't do this. We did this in a way that would maximize the private sector's results. We said to a particular company, "We want to develop your business in the exporting industry." Let's take a biomedical valve guy we had who was operating out of his garage. We said, "We think you have a product that is exportable. We can help you, but let us set targets. Let's set a target for sales and, if we don't reach that target of sales in the first year, you have the right to terminate us."

ASSEMBLYMAN KOPPELL: But, what if there is another company that wants this service? Why should you be entitled to grant this on an exclusive basis? You are a government entity, a public entity. If Apple Computer wants your help, fine. But, why should you be able to deny Commodore Computer the same services, as a public entity? I mean, how would you feel, for instance, if the Department of Commerce of the State of New York said, "We will help Apple Computer," and then the Commodore Computer Company comes along and they say, "No, we won't help you," and they are both New York companies? Could you justify that if it were the Department of Commerce? I'm asking you.

MR. OUIDA: I think I gave you the answer; it is on a nondiscriminatory basis.

ASSEMBLYMAN KOPPELL: I'm asking, could you justify that if it were the Department of Commerce?

MR. OUIDA: Yes.

ASSEMBLYMAN KOPPELL: You could?

MR. OUIDA: I think -- absolutely. If you are going to--

ASSEMBLYMAN KOPPELL: The State Department of Commerce could help one New York company?

MR. OUIDA: If you are going to be involved in this kind of activity, you have to do it in a meaningful way, and in a way that has the ingredients of success. The only way to succeed in this business is, you must identify the particular firms that you are going to work

with. You cannot work with several competing manufacturers in the same industry.

ASSEMBLYMAN KOPPELL: Let me ask you this. Turning to the specifics of the bill for a minute-- By the way, let me introduce Irwin Landes, to my right, who is Special Counsel to Speaker Stanley Fink of the New York State Assembly. Mr. Landes is also a former colleague of mine, a former member of the Assembly, a distinguished attorney, and I am glad he is here with us.

MR. OUIDA: I have spent many hours in Irwin's office, and I appreciate seeing him here.

ASSEMBLYMAN KOPPELL: Looking at the specific legislation, on Page 9 you talk about establishing joint subsidiaries. Now, you say with anybody. Does this contemplate establishing a joint subsidiary with a private company?

MR. OUIDA: Yes.

ASSEMBLYMAN KOPPELL: Now, if you establish a subsidiary with a private company -- is this subsidiary going to throw off burnings, or profits, or anything of that sort?

MR. OUIDA: No, what this refers to, as the Federal legislation specifically recognizes, is that there would be a combination of public and private ventures, joint ventures. In the New Jersey bill, by the way, it says "subsidiaries." As I indicated to you earlier, Assemblyman, in the New York bill, Assembly Bill 8153, I think it restricts it to one subsidiary. That is the difference in the bills. In any event, what that was talking about was possible ventures with freight forwarders, banks and other entities, to get the maximum effect for these private sector manufacturers.

ASSEMBLYMAN KOPPELL: Yes, but if you set up such a subsidiary -- I'm asking again -- is that a profit-making subsidiary? Is it going to make a profit for the owners?

MR. OUIDA: Well, for the Port Authority, we would preserve our identity. We are a public agency, and we would stay within that, just as we did-- Let's take as an example--

ASSEMBLYMAN KOPPELL: Let's assume it is a subsidiary that is 50% owned by the Port Authority and 50% owned by a freight forwarder -- 50% owned by Consolidated Freight Forwarders. Is Consolidated Freight Forwarders going to make any money on that?

MR. OUIDA: Yes, certainly, that is why they are in--

ASSEMBLYMAN KOPPELL: So, the Port Authority is now going to be establishing a joint venture with Consolidated Freight Forwarders, and that joint venture is entitled to all the tax exemptions under this bill. Is that right?

MR. OUIDA: No, I don't think so. Now, again, I am not the lawyer here, but I don't think that we could give our immunities or our-- I think this was a concern that you--

ASSEMBLYMAN KOPPELL: It says it right here, Mr. Ouida. Please look at Lines 35 through 40. Please read that to me; would you read that to me, please, Lines 35 through 40?

MR. OUIDA: What this legislation originally, as it was drafted, contained, was that the subsidiary corporation would be the same as the Port Authority itself. All right? Our intention was not to cloak the private sector with the Port Authority's immunities, and it is not today, Assemblyman. So, that language should be corrected to reflect that; I agree with you.

MR. FRANK: I think that language might deserve some closer attention. In viewing it myself -- I was not the author of the legislation; Mr. Rooney, who had a major part in writing it, is ill and couldn't be here today. I think he might have been able to do a better job of answering this kind of question than I can. But, in reviewing it last night, I had circled that. I can't give you an answer, but I think it does bear some looking into.

MR. OUIDA: As a matter of fact, Assemblyman, I have another version of this bill. I believe the New York version, Assembly Bill 8153, does not contain that language.

ASSEMBLYMAN KOPPELL: We'll check that.

FROM AUDIENCE: What page is that on?

SENATOR LIPMAN: Page 9.

FROM AUDIENCE: Yes, it does. I have it here; it is the exact same language. I have it on Page 7.

ASSEMBLYMAN KOPPELL: All right, we'll look at that. I appreciate it, and we will look at that. Let me go back to another aspect now. I don't want to monopolize the questioning, but you indicated that your primary aim was to help small companies and, of

course, that is very appealing. Why don't you have a limitation in here that companies over a certain size should not be dealt with?

MR. OUIDA: I don't think you would want that restriction in there because, again, we're talking about the maximum flexibility to succeed. The larger companies sometimes make economies of scale necessary for the smaller companies to export. Let me give you an example. It is very practical. If we send a container load of a particular product, a food product, to a particular market, it may be that a smaller company's order would be a lot less, but by combining the two we make certain economies of scale possible. It also may be that that larger company serves as a leader to enter a particular market. Buyers overseas do not look upon a trading company as only serving a limited product segment. They want you to satisfy all their needs if you are in that market. So, in order to do that, if you build that restriction, I think you are building in defeat. This is such a difficult business. We have not found any gold mine out there in this business. This is such a difficult business that I think if you want us to succeed for these smaller companies, you are not going to want to put that limitation in.

ASSEMBLYMAN KOPPELL: Well, I don't know what you mean by success. You sound like a private entrepreneur trying to build up a business as you are talking, Mr. Ouida, and it is making me uncomfortable because the Port Authority is not a private corporation. I mean, if you were talking as the head of some new private company, I would say that was terrific. Maybe I would even invest with you. But, the Port Authority is a public entity, a creation of the two states, to serve the public in general, not to serve one company or another company. I am just a little--

MR. OUIDA: When I talk about success, I am talking about the success of the manufacturers we represent. We want those companies to penetrate those markets. We want those companies to succeed. That is our focus. I am not talking about the Port Authority itself; I am talking about making this service effective, not for ourselves, but for the companies we are trying to help.

ASSEMBLYMAN KOPPELL: But, if financing is the key, as you indicated before, why not just authorize the Port Authority to finance

companies on a nondiscriminatory basis, where they are eligible, so you could finance -- going back to my computer example -- Apple, and if Commodore came along and they needed financing and they would do business in the port, you could finance Commodore? That makes sense to me, and that is the way, for instance, the UDC operates. They help lots of companies. I have never heard the UDC suggest to me that they would only help one company in a particular field. You know, there has to be some discretion if the public sector is going to help the private sector. You can't eliminate discretion entirely. But, what you are doing is, you're creating monopoly situations. You even have the power under this legislation to fix prices. For instance, let's assume you help-- Let me ask you this question. What if you did predatory pricing, could you do that? I mean, could you drive a smaller company out of the market, one company out of the market because your assistance helped another company to price below that company?

MR. OUIDA: Well, you know, the very purpose of the Federal legislation was to allow the smaller companies to unite through a mechanism, through the trading company, so that they would be competitive, and they would, possibly, need governmental immunity, they would need this antitrust immunity. That is the whole purpose of the Federal act, number one. Number two, let me say this. I think when you say I sound like a private--

MR. FRANK: I don't know if you could do predatory pricing or not. I don't know whether you could accomplish something like that and still be -- I think that takes a knowledge of the Federal legislation and its relationship to this, and I don't think Herb means to be giving a definitive answer on that.

MR. OUIDA: What I'm saying is, that in order for these companies to succeed, they need to be in an entity which, in fact, may require antitrust protection, because the markets they are going into, the foreign markets, want to make certain arrangements as to price. I'm telling you that this is what the Federal legislation was designed to do, which is what our overseas competition does to us. I see this as a means by which the Port Authority can use its resources to help those smaller companies by combining them in a particular mechanism, in a trading company, which takes a developmental period that the private

sector would not necessarily be interested in, so that the long-range dividends are there, but not immediate gains for the private sector.

ASSEMBLYMAN KOPPELL: One last area of questioning, the tax exemption aspect. As we came into this complex this morning, I noted that we passed a lot of warehouses. If those warehouses were involved in warehousing goods for export, or warehousing some goods for export under this bill, couldn't the warehouses be transferred to the export trading company, thereby becoming tax exempt because they were owned by the export trading company, but were still utilized by private firms?

MR. OUIDA: Well, if the Port Authority operates facilities today which are, in fact, free from taxation -- if the trading company had such a warehouse which was used for the public purpose defined in the bill, it may very well be that it would not be subject to taxation. But, it would have to serve the public purpose that you define.

ASSEMBLYMAN KOPPELL: Oh, but the public purpose is very broad now, anything having to do with export trading.

MR. OUIDA: Well, you know, the question here is, what is necessary for small and medium-sized New York and New Jersey firms to penetrate overseas markets? Why are there 2,400 firms identified as not exporting, in spite of all the private services available? The Congress is trying to introduce a new resource, a special energy, which we think we can provide. You know, if you talk about a developmental role and you say, "Well, is this a subsidy?", well, we're talking about being competitive. We're talking about making those companies competitive through the public sector helping them.

ASSEMBLYMAN KOPPELL: Senator Lipman?

SENATOR LIPMAN: All right. Mr. Ouida, first of all, I would like to clarify a question that is still kind of vague in my mind. The Port Authority would establish a subsidiary company like PATH?

MR. OUIDA: Exactly.

SENATOR LIPMAN: And, you would run this export trading business with that subsidiary company?

MR. OUIDA: That is our intention.

SENATOR LIPMAN: All right.

MR. OUIDA: Similar to PATH. As a matter of fact, the Board of Commissioners of the Port Authority would be the Board of Commissioners of the trading company. The actions taken by the trading company would have the same gubernatorial review and veto that is current Port Authority legislation for all of its activities. So, it would be a subsidiary, as PATH is, but subject to gubernatorial review and veto. Its actions would be taken by its Commissioners.

SENATOR LIPMAN: All right. Now, the fact that this subsidiary is going to be such a moneymaker -- it bothers me that on Page 6 it says that neither State could diminish or impair the power of the Port Authority to raise tolls, fares, fees or charges in connection with any of these facilities. Shouldn't this provision be limited only to your export trading project?

MR. OUIDA: I think that is a standard clause that is found in all Port Authority enabling legislation, that when you authorize a particular project-- Are you saying no, Wally?

MR. FRANK: Are you talking about Section 6 on Page 6?

SENATOR LIPMAN: Yes.

ASSEMBLYMAN KOPPELL: Lines 6 to 9. On Line 9, it says, "or any other facility."

SENATOR LIPMAN: It says New York and New Jersey have no ability to regulate. I'm asking, shouldn't you limit this to your -- the bill seems to give you all power. My question is, shouldn't it be just limited to your export trading project? The language is what bothers me.

MR. FRANK: Well, let me look at it now, and give you an answer.

SENATOR LIPMAN: Assemblyman Koppell has asked one of the questions I wanted to ask, this being exempt from taxation. It bothers me that your subsidiary would take over companies which are already involved, companies which are paying taxes, because the State is going to lose revenue. I think on Page 8 you propose some kind of payment in lieu of taxes to municipalities. That is going to have some kind of balance, isn't it?

MR. OUIDA: I think, Senator, that this question about the Port Authority taking over working with the private sector and,

therefore, the private sector somehow now is not subject to taxes -- that is not our intention. I want to make that clear. If, in fact, that is accomplished by that bill, it needs to be corrected. I thought it had been, Irwin -- with the New York bill, but Ralph, in back, tells me that the New York bill has not been corrected.

Let me tell you what our thought is. We just entered into working with the private sector on Teleport, a facility in the State of New York, but which has implications for both states -- we think very beneficial implications. There was an example of a joint venture, but everybody preserved their identity, and everybody had their own liabilities. That is what we see for the trading company. If we have a private partner, they do not lose their identity, and we do not lose our identity. They do not share our immunities, and we do not share their problems or their immunities.

Now, the way to do that is in some kind of-- With Teleport the way it was done, was through what they call a "participation agreement," so that Merrill Lynch and Western Union, who are, in fact, our "partners," are not really in a corporate entity, so everyone does preserve their identity. I wanted to say that that is our intention, that is what we want to accomplish, and I thought the New York bill had been amended to accomplish that, so that these private people would continue to be subject to the same regulations, the same taxes that they were before they entered into the entity. That is what we want to accomplish.

SENATOR LIPMAN: Well, Joe Capalbo is looking for the exact citation in the bill now, but your answer -- would you say that everybody preserves his own liability and so forth?

MR. OUIDA: Exactly.

SENATOR LIPMAN: The bill seems to imply that the Port Authority would have the sole discretion over the export trading project, even if it were not the sole owner. That is what the language says. Joe is looking for the exact language, but that is what is implied there. That is what I am questioning.

MR. OUIDA: We could not surrender our public responsibility, and let a private sector entity determine that, any entity we had an

agreement with. We are a public agency. I know we are a public agency; I have been trained for fifteen years in the Law Department of the Port Authority to think of it that way, and that is the way I understand our obligations. But, I think we should be able to enter into a relationship with a private sector entity, where we work together in some kind of a joint venture, and each of us still preserves his identity, and each of us is subject to the same regulations and rules we were before we entered into that entity. That is what we want to accomplish. I think, again I say this -- Ralph, behind me, says that the New York bill doesn't have that, but I thought that after discussions with the New York Governor's Office, that that was changed in the New York bill.

SENATOR LIPMAN: Section 11, Page 8, "Except as otherwise specifically provided, all details of the effectuation of export trading projects by the Port Authority shall be within its sole discretion...."

MR. OUIDA: I think that would require that even if we have a private partner in a joint venture, we could not surrender our public responsibilities. We would not be able to let them control the public work that we are obliged to control. That is what I think we are saying there. I think that could very easily be accomplished in the language of this bill.

SENATOR LIPMAN: Yes. Well, we are going to tighten the language.

MR. OUIDA: Incidentally, Senator, again, there has been legislation passed. Other states have done this. I think you may want to look at, and I will be glad to make available to you, the State of Oregon's bill, in which they authorized their port to enter into a similar type of activity.

SENATOR LIPMAN: Okay. When we authorize this subsidiary, this company, then we no longer have any jurisdiction over it. Is that right?

ASSEMBLYMAN KOPPELL: Yes.

SENATOR LIPMAN: That is what I thought too.

MR. OUIDA: Let me answer that. Again, the Board of Commissioners of the Port Authority would be the Board of Directors or

the Board of Commissioners of the trading company subsidiary. All actions taken by the Board of Commissioners are subject to gubernatorial review and veto, so there would be that same control mechanism that is in place today for all of the Port Authority's activities. We are not going to create something here that isn't still responsive in the same way the Port Authority is today, under gubernatorial review and veto. In other words, the Commissioners of the Port Authority who are appointed by the Governor with the consent of the Senate, would be the same Commissioners of the Port Authority trading company, and their actions would be subject to gubernatorial review and veto. I don't know that there is any change.

SENATOR LIPMAN: It doesn't have much to do with us though?

MR. OUIDA: Well, I don't know.

SENATOR LIPMAN: We just pass the bills.

MR. OUIDA: Normally, we are an agency which responds to the Executive Branch of the government. I mean, that is the way it is set up. It has always been that way. I mean, I am not a political science expert, but that is normally the way public authorities operate, within the legislative guidelines.

ASSEMBLYMAN KOPPELL: But, executive agencies of government are subject to legislative control, even legislative override of a gubernatorial veto, and yet you have fixed in here on Page 6, in the language that Senator Lipman referred to before, a complete insulation from any governmental control whatsoever. If we decide five years from now that we are very unhappy with the fact that you are doing exclusive contracts-- Let's assume you are doing exclusive contracts with companies, and we decide that that has not worked out well at all, that you are making contracts with one computer company, one food company, one hardware company, whatever, and we decide we want the Port Authority to do it on a nonexclusive basis, we could not do it, because it says we cannot affect the nature of the services. We cannot affect the quantity, the quality, the frequency, the nature of any services in this export. We are going to give you this authority, and then we're out. That isn't even true for a private company, because with a private company, while we may not be able to affect past contracts because of the constitution on a contracts clause, we can affect future

contracts. This wouldn't even let us affect future contracts that you enter into, because this is a covenant with the bondholders, which is an ongoing contract which might last for forty years that we won't do that.

So, you are a public entity that is more insulated than a private company. With a private company, we can at least affect future actions, but we cannot affect past actions.

MR. OUIDA: I think the question is, what can you say to the private sector that will make them want to work with the Port Authority to succeed for the small businesses in our region? That is the question. I think you want to give us a vote of confidence, that you want to state to the private sector banks, or the freight forwarders, or the shipping industry, that you believe this is a very important project, and you want to give your statement of confidence to the Port Authority. In fact, if you do it another way, you're saying, "Hey, we're giving it to them, but we really don't trust them." This is a question that I think is important. I don't know about restrictions on future legislation, Assemblyman. I don't know that that is accurate, by the way, and I am not going to say one way or the other.

ASSEMBLYMAN KOPPELL: Well, you can ask your counsel. Do you have any different view on that, Mr. Frank?

MR. FRANK: Well, you are certainly free to amend legislation whenever you want.

ASSEMBLYMAN KOPPELL: But, read Page 6, Section 6, Line 1, "The two states covenant and agree...." I'm sure you are familiar with the United States Trust Case, where we tried to do just what you said, both states, with respect to the Port Authority before. The Supreme Court held that we couldn't do it, because there was a covenant with the bondholders.

MR. OUIDA: And, the end of the story is that we then later made $100 million available to each state for mass transportation, for buses, and then $120 million. So, the truth is, we were responsive, I believe, to legislative concerns. I think that that is what happened.

ASSEMBLYMAN KOPPELL: Because the covenant just happened to be limited to rail, and you did that because we passed legislation mandating it. But, let's not get into that debate. The fact of the

matter is, I read the words, "covenant and agree with each other and with the holders of the bonds," and then the broadest language here that I have ever seen in a bond covenant. I asked Mr. Frank if there was any language similar to this with respect to any other public authority in New York. I don't know about New Jersey, but I know New York. I know with the Triboro Bridge and Tunnel Authority, we say that we won't interfere with the right to raise fares and tolls, but this doesn't only say fares and tolls, it says, "quantity, quality, frequency or nature of any services." I have never seen a covenant like that. If you have seen it, please show it to me. Please send it to Mr. Amgott or Mr. Landes. I have not seen such a broad covenant, and I read the covenants because this is something I have been interested in since U.S. Trust, because I was involved with that.

MR. FRANK: I have not seen it.

SENATOR LIPMAN: Mr. Ouida--

MR. OUIDA: I am going to remain, Senator, throughout the day, and I would be happy to answer any other questions.

ASSEMBLYMAN KOPPELL: Could Mr. Landes ask one question?

SENATOR LIPMAN: Yes, go ahead, Mr. Landes.

MR. LANDES: In light of what Assemblyman Koppell and Senator Lipman have said, and your responses about the intention of the Port Authority to maintain its individual governmental role, why do you need subsidiaries jointly at all with private companies? Why can't you simply enter into conventional contracts and conventional joint venture and participation agreements, such as the one you cited? Why does a statute have to apply to any joint ownership of a private venture?

MR. OUIDA: I think you want to have this activity through a subsidiary of the Port Authority.

MR. LANDES: Of the Port Authority, but why do you--

MR. OUIDA: That subsidiary then has to have authorization to work with the private sector, which may provide a variety of services.

MR. LANDES: But, as I heard the bill, it provides for your ability to enter into joint subsidiaries--

MR. OUIDA: (interrupting) Yes, I understand, Irwin. In other words, a corporate entity.

MR. LANDES: -- or a private company, where you will own a portion of the company and the individual firm you are dealing with will also own a portion of the company. Why is that at all necessary?

MR. OUIDA: I think that what is necessary is that there be language inserted in the bill which will make it clear that whatever the subsidiary does with the private sector, that the Port Authority will still be subject to all the rules and regulations it is subject to, and the private sector will be subject to all the regulations and taxes it is subject to. That is what I think is necessary. I don't know the exact language, Irwin.

MR. LANDES: But, do I understand that you don't feel it is necessary that the Port Authority or a subsidiary of the Port Authority become joint owners of any private corporation?

MR. OUIDA: No, we don't.

MR. LANDES: You don't? You do not mean subsidiary in that sense at all?

MR. OUIDA: Not in that sense. A joint venture with each preserving its own identity. We agree with you that that is important to preserve. Again I say, Irwin, the New York bill, as I understand it, restricted it to one subsidiary and said that it could not be a separate corporate entity, that there could only be some kind of joint venture.

ASSEMBLYMAN KOPPELL: Thank you.

SENATOR LIPMAN: Thank you very much.

MR. OUIDA: Thank you. As I said, we will be available throughout the day for any questions.

ASSEMBLYMAN KOPPELL: Mr. Chew, I think you have to leave for the Far East, is that right?

MR. CHEW: For Venezuela.

ASSEMBLYMAN KOPPELL: Why don't you come up? Mr. Chew was good enough to actually change his travel plans so he could appear today, so I want to accommodate him. Mr. Chew is the President of the National Association of Export Companies, Inc. Do you have a prepared statement?

MR. CHEW: Yes, I do.

ASSEMBLYMAN KOPPELL: Could you read it, please? Also, maybe you could tell us exactly what the Association you represent is, who the members are, and so on.

R A L P H H. C H E W: Senator Lipman, Assemblyman Koppell, thank you very much for inviting me. My name is Ralph Chew; I am primarily an exporter, and have been for thirty-odd years. As Assemblyman Koppell has indicated, I am also President of the exporters' association, which is called NEXCO. NEXCO is the National Association of Export Companies, and primarily has members, individually-owned, private export trading companies, most of them located in the tri-state area, New Jersey, New York and Connecticut. We recently formed a national affiliation with export groups across the United States. In hearing my friend, Herb Ouida describe the functions of the Port Authority, he has done an excellent job. He is obviously very experienced in testifying, and I would like him to describe the services of our companies, because we do exactly the same thing that the Port Authority is trying to do.

Many of our companies are small and medium-sized companies, and we take the small and medium-sized manufacturers into the export business. This is what we have done, what my company has done for sixty-five years. Our traditional role is to start a manufacturer in the export business and, in all too many cases, we take him up to $5 million or $10 million in exports, and then he goes on his own and does his own exporting. The very essence of what we do is what the Port Authority is describing that they want to do. As the Port Authority has discovered, this is a very difficult and complicated business. As we sit here today, American exports are suffering greatly, and many of our companies are having their businesses impaired by the very high dollar and by the liquidity crisis around the world. We had a meeting last week of the Board of Directors of the Association, and they all insisted that I should come over here today to talk to you because they all regard, with abject terror, the entry of the Port Authority into our business.

If you look at Page 6 -- I read this bill last night and underlined in red two lines, "The export trading company forms an essential government function," this is on Page 6. Then it says, "We shall be required to pay no taxes." I mean, the first reaction of our

companies was, "Here we are, taxpaying, often privately-held companies, and the Port Authority has enormous financial clout, which few of us can match." The Port Authority could be of enormous help in the development of exports out of this area, but this legislation will not only scare the hell out of many of our companies, but will probably put many of them out of business. It will probably result in less exports.

So, I was asked by our Association to come here today to answer any questions you might have and, also, to describe to you our reaction after our first gasp of horror, when we heard the Port Authority was going to go into competition with us. Mr. Ouida has referred to the legislation that the Federal government passed, mentioning that port authorities could get into the export trading company business. The legislative history of that is fairly clear. It was a last minute, eleven o'clock at night, addition, without very much thought.

The other port authorities which have looked into this, for example, Philadelphia and Portland, have set up export trading companies which will cooperate with, not compete with, the existing export industry. In Philadelphia, the entire program is to help the manufacturer start his export program and underwrite the costly and burdensome period of starting up the business, and then turn the business over to an existing private enterprise company. God knows, in our business, in most businesses, the private enterprise companies are the active ones. You do not find government-owned trading companies except in Russia, and maybe Czechoslovakia and China. This is a very frightening thing for us.

The second reaction of our Association was, when the Port Authority started to promote their activities, they, of course, were soliciting the same companies with which we were trying to do business. Mr. Ouida has mentioned the company they signed up which just bought a $100 million company; it now does $600 million, and has factories in eight states. This is a company which the Port Authority signed up for the Caribbean for exports, certainly not a small company. It struck home with me, because this was an account I had been after for years. I mean, here we are, a private company struggling with a Port Authority, which happens to be my landlord,

incidentally. It's really a bizarre business with them charging into our field.

Mr. Ouida explains it is necessary for the Port Authority to have large suppliers in order for there to be an economy of scale, in order for him to be able to consolidate shipments, and in order for him to do business profitably. When he explained why he had to sign up large companies in answer to your question, that is exactly the same explanation I would have given. He is trying to cover his overhead; he is trying to make profits; and, he is trying to compete with us for the same accounts.

The reason we have chosen to testify concerning this legislation is that this legislation, although it has the enormously broad language you pointed out, primarily allows the trading company to buy and sell products. We think this is an enormous step, because you're putting a quasi-governmental organization into the buying and selling of merchandise. We also think that, although they are describing themselves as going only to small companies to sign up, when they make the explanation of why they are taking on these big companies, they are revealing what their plan must be. They have to cover this very large expense. They can lose money for years and years, they are a billion dollar entity, which is pretty tough competition for private companies, but eventually they have to cover their expensive overhead, and they have to do that by setting up large companies and by stealing accounts from the private sector.

There is a great deal the Port Authority can do besides trying to put us out of business. There are hundreds of small export trading companies around the metropolitan area. The New York phone book has twenty pages of them, and I have known all of them. Assemblyman Koppell was kind enough to say that I put off my trip to Venezuela. I have plenty of problems in Venezuela, and I don't make a living testifying before committees, but we really regard the Port Authority entering into our business as not being a realistic thing. There are many things the Port Authority can do. Now, they have directed their attention to finance. They do not have to take title in order to encourage the financing of the export trading business. We think they are presenting themselves as a small struggling entity

handling only very small companies, and once they have gotten their nose in the tent, like the proverbial camel, there will be no stopping them. Just as you will lose control of them, we will also have an enormous competitor, a competitor which terrifies us, frankly.

We are perfectly prepared to cooperate with the Port Authority. When they appointed their first manager, I took him to lunch and said, "Why don't we try to do business together?" I paid for the lunch, and that was the end of the relationship. We think the state Eximbank, which has been mentioned a couple of times, is an excellent idea. The Vice Chairman of the United States Eximbank, Charlie Lord, testified in New York that the Federal Eximbank thinks there is a role for state Eximbanks, for the financing of smaller transactions which the Federal Eximbank has had difficulty managing.

I was fascinated to hear that the Port Authority has negotiated a FCIA credit insurance and political risk insurance policy. The FCIA is another government-sponsored entity that, in cooperation with private insurance companies, insures overseas transactions. Almost all of the members of my Association have FCIA policies also. We are insuring the overseas receivables with this government-sponsored entity.

As you can see, I am not following my written material, but in conclusion, we feel very strongly that New York and the Port Authority do not need this legislation to cooperate with the private sector. In fact, we feel very strongly that this legislation will make it unnecessary to cooperate with the private sector. If they can buy and sell, they do not need to work with us. The minute they get this enabling legislation, forget it, they are not going to work with the private sector. If they work on the basis on which they have been working, then they need us, because we can take title, we can take risks, and they can't. Rather than encouraging cooperation with the private sector, the enabling legislation to let them take title and take risks, and that is in this bill, will subvert any possibility of their cooperating with the American export industry.

I should say, in conclusion, that American exporters, in spite of the perception that we have done a lousy job, have been the fastest growing sector of the American economy for many, many years.

United States exporters grew from $10 billion to $250 billion by 1980. They have declined 20% since then, for reasons we are very familiar with. Our business is very difficult, and we do not welcome a tax exempt subsidized competitor into what is, in every place in the world except Russia, a private-sector activity. Thank you.

SENATOR LIPMAN: I gather you feel the Port Authority would be unfair competition?

MR. CHEW: Yes, we feel that very strongly. That was our first reaction, Senator, and everything we have seen in the last year since they started working on this program has terrified us even more. I have had the experience of their going after a major account I was after for ten years. Some of our people had met with this $600 million company just before the Port Authority came along and then, imagine, the Port Authority comes in, with billions and billions of dollars. My company does $75 million -- you know, this is tremendously unfair competition.

SENATOR LIPMAN: Do you think the Port Authority has the authority to do what it is presently doing with the export trading company?

MR. CHEW: Well, that is a very interesting question. I hope not, because there is so much more they can do. Yesterday, as many people may know, they decided not to have a strike in the Port of New York, or on the East Coast. The Port of New York is in a very difficult crucial time. I think you probably know there are special arrangements where a guaranteed annual wage is paid to the stevedores, and the Port Authority is not even an actor in this crucial moment in the future of the New York port. It is not minding its business. It is going off and doing-- The strike which was put off for three months yesterday was a symptom of a serious problem with the New York port, and the Port Authority is not even an actor in this very serious moment in the history of the Port of New York.

ASSEMBLYMAN KOPPELL: Well, I don't know if that is fair, because I know they are somewhat involved in that problem. In fact, we have a hearing next week on the problems of the Port of New York. You're right, there are serious problems, but I do not know if you are right that the Port Authority is not involved.

MR. CHEW: Well, okay, they may be involved, but it is a very important and difficult time. I think you know that the whole port may tip, in the sense that--

ASSEMBLYMAN KOPPELL: The freight differential?

MR. CHEW: That's right. If it goes from $8.00 to $12.00 a ton, $250.00 a container, I'll ship everything out of Baltimore. I would have to, not because I am not a loyal New Yorker -- I was born here and brought up here, and I love New York -- but, I can't pay $250.00 a container to ship. Where is the Port Authority at this crucial time? Maybe the next few days will mean more to the Port Authority with this problem of the guaranteed annual wage payment, than anything else that has happened.

ASSEMBLYMAN KOPPELL: Well, I must tell you that I want to be fair to them, because I am a critic of theirs. The words you just said, almost verbatim, were said to me by Peter Goldmark over the last four months on many occasions. So, he shares that concern and perception 100%.

MR. CHEW: As an exporter based in New York I am very glad to hear that, because the port needs help very badly.

ASSEMBLYMAN KOPPELL: He had breakfast with Mayor Koch and he met with union leaders; I mean, that concern they do have.

MR. CHEW: Good.

ASSEMBLYMAN KOPPELL: I'll give them credit for that.

MR. CHEW: Anyway, I would be glad to answer any questions, Senator. I'll send a copy of my testimony to your office. We also have here from our Association, one or two other members representing a broad consensus that the Port Authority coming into a private business would, instead of increasing exports, disrupt the industry and probably decrease exports in the long run.

ASSEMBLYMAN KOPPELL: May I ask Mr. Chew a couple more questions? Is that all right?

SENATOR LIPMAN: Yes.

ASSEMBLYMAN KOPPELL: The argument that has been made to us over the months on this legislation is that Japan -- a Japanese trading company, I guess, was used as an example -- supposedly combines sort of quasi-governmental assistance with financing and money, along with

these kinds of exclusive arrangements. I am not a great expert on it, but I have the impression that the large export companies very often are in conjunction with certain large manufacturing firms in Japan, and kind of represent them.

MR. CHEW: I have been in Japan twenty times. I was there in the Army. I have five--

ASSEMBLYMAN KOPPELL: (interrupting) Should we be creating that kind of a model in the United States?

MR. CHEW: Well, Japan is a very different country, and a very difficult one to understand. I should say that none of the major Japanese trading companies have any government ownership, period. There is also a law in Japan that no bank can own more than 5% of a Japanese trading company, which is an interesting thing in view of the legislation.

The Japanese model is obviously something which we can learn a lot from. The American tradition of animosity between the private and public sectors never evolved there; they cooperate. I think there is a great deal that can be done at the state and Federal levels to cooperate and support the activities of exporters. I have a long list of things which our export trading companies want the government to help us with. One of them is, not going into competition with us. The Japanese companies--

ASSEMBLYMAN KOPPELL: (interrupting) Can you define for us what you think the Port Authority can do to help you? Let's say the Port Authority wanted to help those twenty pages of export trading companies in the New York area, rather than compete with them, what could they do to help those export trading companies be more effective in helping the industry?

MR. CHEW: There is quite a history here, because the Port Authority started in the export business by getting a grant from the Department of Commerce to study and promote exports for various companies, denying to us all the while that they were ever going to go into the export trading company business. We said, "Aha, you are going to get this, you are going to staff up, and you are going to compete with us." They said, "No way; we are not going to do that." So, the whole history of this trading company has been devious, not

straightforward. And, they are being devious and not straightforward when they are saying to you today that they are only going to handle small manufacturers, that they cannot export in any other way. This is impossible. So, they have a three or four-year history of difficult relations with exporters in the New York area.

Now, this is not the case in other cities. The Port Authority of Oregon, which has just gotten enabling legislation -- that legislation was supported by the local Association of Exporters, because they have been cooperating. Now, what can they do? There is no question that American exports are in real trouble, primarily because of the liquidity crunch overseas and the high dollar. It is a very difficult business. The financing of exports is the most difficult area for the private sector now. If the Port Authority comes in with their financial clout and is able, due to this legislation, to finance exports for themselves, they will be devastating competition for us, because we are struggling with this serious problem. Rather than putting us out of business, because they will have this tremendous edge, they should develop those resources for the private sector. This is what a government entity should do.

I am negotiating a transaction in Ecuador, where it will take me eighteen months to get paid. Ecuador is an oil country. The same thing in Nigeria; it will take me more than a year to get paid. This is good business. The United States needs it; our balance of trade needs it; and, I need it. It will be business that will be continued. I am having great difficulty in financing it. The private sector banks are not comfortable with twelve-month receivables. The government could make a great contribution here. The Port Authority could make a great contribution here. The Federal Eximbank has had difficulty dealing with the smaller regional transactions, and maybe a state Eximbank -- Mr. Ouida indicated that this was an area in which the Port Authority felt very qualified to bring financing and the FCIA to this kind of transaction, where financing is so important.

Why have them do it for themselves, a tax-free entity, when they should be doing it for the private sector? That is what they were set up to do, it seems to me. For me to make a list of the things the Port Authority could do-- I have been a tenant in the Port Authority

for twelve years. When one of my members said the Port Authority trading company sounded like a Russian export trading company, I said, "As landlords, it is a little bit like doing business with the Russian government too. They are very difficult."

They have sponsored trade missions, and the World Trade Institute is a school that is very highly thought of. If they were using that school as sort of a stalking-horse for staffing their export trading company, we might be a little more comfortable with it. They are trying to sneak into this business and, if it was cleared up once and for all that they were not going to go into competition with us, then they would be able to cooperate with us. But, there is a history of, you know, no straightforwardness in this whole program. They have tried to sneak into this business because of the concerns the Legislature has had for many, many years about the Port Authority going off and doing things they were not intended to do. This is certainly one of the things they were not intended to do when they were set up.

ASSEMBLYMAN KOPPELL: Mr. Chew, we appreciate your coming very much.

MR. CHEW: Thank you very much for inviting me.

ASSEMBLYMAN KOPPELL: We will continue to be in touch with you.

SENATOR LIPMAN: Mr. Earl Holsapple, President of the Bancorps International Trading Company (BITCO). I'm glad you could stay, Mr. Holsapple.

E A R L H O L S A P P L E: Thank you; I appreciate that. I have some visitors coming in from the Netherlands and they are not going to be too patient with me, so I appreciate your allowing me the opportunity to speak. I do not have a prepared statement to hand out. I do have a few comments, if that is all right.

First of all, let me tell you what Bancorps International Trading Company is. We are the first multi-bank export trading company under the auspices of the Export Trading Act of 1982 to be established in the United States. We are also the first export trading company to be established in New Jersey which is not of a multi-bank nature. The participants in this trading company are the New Jersey National Corp. of Trenton, Ultra Bank Corp., better known as the First National Bank

of Central Jersey, and the Bridgewater and Ramapo Financial Corp. of Wayne. Besides that, the organization is also owned and participated in by private-sector individuals.

We have an organization of people who are very credible in the international arena. For example, one of our directors and active management participants is the Chairman of the New Jersey District Export Council. We have two other members of the Board of Directors of our organization on that Council also. We have participated, initially in New Jersey very actively, in export trade development.

I come here today to share with you the great concern we have toward the balance of payments and the need to develop additional new exports overseas and, obviously, the need to develop jobs. I think that as I comment today, I must keep that in the back of my mind, because we want to be objective. Unlike the previous speaker, we are a newly developing export trading company, so we do not have a plate to protect, so to speak. We perceive that the opportunity to develop export business is very extensive for us, especially since we are the first bank-sponsored export trading company in New Jersey.

We also appreciate the fact that the Port Authority of New York and New Jersey has a vital role to play in the development of exports overseas. It is my purpose to try to react to what is the proper role for the Port Authority. As I develop my point, I would like to first talk a second about what I perceive as the advantages and the disadvantages that the Port Authority brings to the export arena. First of all, as a quasi-governmental organization, the Port Authority has tremendous credibility in overseas markets. When trade missions from the Port Authority visit various countries, they are treated as quasi-governmental dignitaries. The carpets are rolled out, and the ability to make contacts is extensive. Secondly, the Port Authority has the advantage of being a nontaxable entity. Third, the Port Authority has the ability to muster the activities of the port in a way that a private enterprise organization, especially a developing private enterprise organization, could not possibly expect to have. Last, but certainly not least, would be the fact that the Port Authority is not a profit making organization.

Regarding the disadvantages, or the negative aspects of the Port Authority, I think some of these have already been alluded to. It is a bi-state organization; it is subject to the needs as a bi-state organization. I think the concept of a Port Authority acting on an exclusive basis is impossible to deal with, and I'm sure that as politicians you understand that. As a private-sector individual, I also see that as a strong disadvantage for the Port Authority. To be specific, if the Port Authority wants to represent an apple grower in New Jersey and an apple grower in New York, under their present system that would be impossible. Why does one state get treated in an advantageous position, or one company?

Secondly, I think that the Port Authority, because it is a quasi-governmental organization, is subject, not necessarily to the whims of government and politics, but is subject, certainly, to the purview of government and, therefore, would not be as free to compete on a timely basis in the international arena as the private sector would be.

I guess that is really the same as my third point. I do not believe that because of the nature of the organization, that it will be able to react as quickly, nor in a timely way.

Fourthly, and I think this point has also been alluded to, the Port of New York is not necessarily the most competitive port to ship New York and New Jersey products from. Therefore, obviously, it is going to be to the interest of the Port Authority to move products through that port, and possibly make certain products noncompetitive overseas.

Now, let me talk about Bancorps International Trading's position relative to this legislation, and then tie it back to those advantages and disadvantages. We are positively against the concept that the Port Authority should have the right to enter the export trading business in general. We see no reason for the Port Authority to take title to goods. We see no reason for the Port Authority to provide financing, at least in the sense they are talking about now, by taking title to goods, and we object to the legislation. We object to the legislation because we are really free market participants. We believe in the free enterprise system, and this is contrary to the free

enterprise system, as we perceive it. The concept of public sector funds competing with the private sector is unconscionable to me, and to the banks I represent.

We also believe that the concept of the Port Authority entering the export business with considerable advantages, as we perceive it, would discourage, not encourage export from this region. I firmly believe that, although we are the first bank-supported export trading company, we will not be the last. I am confident that New Jersey will have many export trading companies supported by banks, and those supported strictly by private industry, and I am sure the same will be true of New York State, and to think that a public sector organization could compete directly with those enterprises, in my opinion, would not encourage activity. As we developed our export trading company, we did that which any organization is going to do. We did a competitive audit. We tried to perceive who our competition in the export trading business would be, and one of our principal concerns was the Port Authority of New York, not the export management companies which exist today. We perceive that we can effectively work with the export management companies, but not with the Port Authority, as this legislation would have it defined.

We think it is also very important that the Port Authority participate in a successful export program for New York and New Jersey. After all, just looking at the size of the port, and the amount of product that goes through that port, we perceive it is only natural that the Port Authority would participate in an export program. Herb Ouida spoke a moment ago about the kinds of things the Port Authority has done historically, trade missions overseas, the Trade Institute, the information system, and we highly support those activities. We would also encourage the Port Authority to develop relationships on a fee-for-service basis with the private sector, to use the advantages that I talked about a moment ago. I think the private sector can help the Port Authority overcome its disadvantages, and the advantages can be used to support the private enterprise system, not compete with it. That is our basic position.

We want to be one of the first to have a working relationship with the Port Authority, but not under the present circumstances. Thank you.

SENATOR LIPMAN: Thank you very much.

ASSEMBLYMAN KOPPELL: Thank you very much, Mr. Holsapple. We appreciate your strong statement. We will have it transcribed, but if you want to put it in shorter form, perhaps in writing, and send it to us, we would appreciate that as well. Please put it on the letterhead of your new company, or on the letterhead of your bank, whichever you prefer.

MR. HOLSAPPLE: We'll put it on the letterhead of the trading company.

ASSEMBLYMAN KOPPELL: Mr. Landes?

MR. LANDES: You are one of the first bank-supported export trading companies, and I have been concerned with the Port Authority's proposal in terms of its being a lender to ventures in which it is also a principal. It seems to me to be a violation of some basic principles of banking to lend to yourself. Mr. Chew said that in Japan -- and I presume it is for this reason -- banks are not allowed to own more than 5% of a trading company. You, on the other hand, are a bank-owned trading company. Aren't you also in that respect, in a sense, unfair competition and a difficult problem for private enterprise export trading companies, in that you will, in effect, be using your lending facilities to support loans that might not, in the private area, be available to exporters, because they cannot qualify for them as being reasonable business risks?

MR. HOLSAPPLE: The Federal Reserve Board has set down regulations, regulations that have existed in a different form under 23(a) of the Federal Reserve Act, which clearly specify that the parent company, or the parent of the affiliate -- in our particular case, the Bancorps International Trading Company, is treated as an affiliate of the three bank holding companies. Those bank holding companies cannot lend money to us on terms that they would not lend to other organizations. For example, we cannot get cheap loans; we cannot get uncollateralized loans. Specifically, the regulations state that if the bank is to lend money to the trading company, that money must be supported by purchase orders, letters of credit or items like that, which would make Bancorps International Trading Company a reasonable credit risk. Those same conditions would apply to export management companies, manufacturers, and so on.

So, no, the trading company does not have an advantage as it relates to credit.

MR. LANDES: Could you send the Committee a copy of that statute and the regulations?

MR. HOLSAPPLE: Sure.

MR. LANDES: Thank you.

ASSEMBLYMAN KOPPELL: I understand what you are saying; I do not have any further questions, because I think you really responded to any questions I would have had. Thank you. Senator, do you have any questions?

SENATOR LIPMAN: No, no more questions. Thank you.

ASSEMBLYMAN KOPPELL: Thank you very much.

MR. HOLSAPPLE: Thank you very much for allowing me to appear.

ASSEMBLYMAN KOPPELL: Dominic Policano, Vice President, First National State Bank.

D O M I N I C P O L I C A N O: Thank you for having me. I am going to be pretty brief. The previous speakers have pretty much stolen my thunder, thank God. I really did not prepare anything concrete, having been given this assignment to appear here, yesterday after returning from vacation. So, I am at your disposal.

I have been kind of following this legislation since it was enacted, or prior to enactment in October, 1982, wherein the banks through Title 2 of that act, the Export Trading Company Act, provided a section entitled, "The Bank Export Services Act," and gave the banking industry the authority to, in fact, present, or to invest up to 5% of consolidated capital and surplus in export trading company activity. What did that mean? Well, it gave the banks, I guess, a shot -- the banking industry a shot at perhaps getting into more of an entrepreneurial endeavor than so-called "banking."

The reaction of the banking industry personally, I feel, has been -- I think the industry has been quite active in the establishment of, I don't know, I've heard a figure maybe of nine or ten bank corporations, such as BITCO, having filed for the establishment of their own export trading company affiliates.

I think this export trading company legislation has given the banking industry a chance to get out of earning income perhaps through the traditional financial areas, and provides the resources they have developed at being a true international-- The industry, having developed international banking areas, has become quite familiar with a lot of information about certain foreign markets, which they can make available through market analyses, studies and business practices in certain markets, which certainly would be of benefit to the export community.

Our particular bank's view, I guess-- You look at the legislation and it gives the banking industry the opportunity to invest in an export trading company as a facilitator, providing certain services, financial services, foreign exchange, documentation, market information, and things of this nature, that the export trading company would address itself to a facilitator, without taking title. That would be the next step. Each bank corporation would have to determine on its own which direction it wants to go. As a facilitator, somewhat similar to a broker situation I guess, a bank would find certain markets for certain goods, and would be able to put those markets and those potential buyers in touch with manufacturers, hopefully, in the New Jersey/New York area.

So, if that facilitator role and that broker role where the bank actually becomes, in effect, more or less an export department, if you will, of a manufacturer, who has no inkling -- he has a fear of export, but if a broker can bring a situation to him, a broker can arrange and facilitate distribution, financing, documentation, packaging, cargo insurance, freight forwarding, all of these needs to put an export together -- if a broker can do that, then that alleviates the fear of the manufacturer. So, the broker can become an export department; however, to the manufacturer, it simply means that the manufacturer still retains the credit risk, because a broker does not take title. Going from that into a title situation such as many of the export trading companies do, such as Mr. Chew's operation does, or the so-called "export management companies" do, they actually take title. Whether a bank wants to do this is difficult to assess. In our own institution, if a bank wants to delve into the export trading company

business, it must have expertise. Now, does that expertise develop from within? Hardly, I would think. I think what you are looking at is going out into the marketplace, perhaps joining in a joint venture with an export trading company. Who is that export trading company? Should it be the Port Authority? Should it be Mr. Chew's outfit? Should it be some other current export trading companies? Should it be those groups of companies listed on those twenty pages in the New York telephone book called export trading companies? Should a bank go out and actually buy export trading companies and set them in place, or, export management companies, to form an export trading company? That is another decision that the bank has to look forward to.

In terms of competition, if the Port Authority was given the power, in fact, to put together an export trading company of its own -- you know, some of my observations are, "Well, it has the clout to go into the corners of the States of New York and New Jersey and pull out manufacturers which have never been approached by export management companies, the ones that exist on those twenty pages," or "How many export management companies are servicing the New York/New Jersey area?" Have all of the potential manufacturers -- I'm just throwing a question out as an observation from hearing the previous speakers -- have all those potential manufacturers been tapped or approached by existing export management companies? Are export management companies really zeroing in on a one, or two, or three product base, and a one, or two, or three market base? It appears to me on the surface that the Port Authority has the breadth and the resources to tap a lot more small manufacturers which know nothing about export, which couldn't care less about export, and which are afraid of export. I think that might be a reasonable question to assess. I think getting down to generating exports, to getting this country moving, is real. It's a real challenge we are confronted with, and you have to get to the smallest manufacturers.

Now, there is an EMC, an export management company, an export trading company existing now, which has the resources, the finances to put out there to reach these smaller manufacturers. I say this, I think enthusiastically, because I have been involved with it. I, by chance, happened to come into contact with small manufacturing firms of

our bank in some of the areas of Newark. They are talking to the people at the Port Authority for this purpose, and they have never been approached before.

So, you know, these things do exist. Another observation from the previous speakers and from you people here at the head table is the tax situation. I guess I am really naive about tax questions, but if exports increase through assistance, whether it is from the Port Authority, the export trading company, legislation, banks, or what not, and manufacturers are taking on more orders, and they are producing more, and they are productive, hopefully the bottom line grows, and if the bottom line grows, don't we all enjoy the benefits of that by increased taxes, or more taxes? I don't know. Isn't that a possibility when you look at the tax structure? I am just throwing that out as an observation.

Our bank, like BITCO, the acronym for Mr. Holsapple's company, is in the process of filing to form its own export trading company. The initial emphasis is designed to be a facilitator. We are afraid to take title, because we don't have the entrepreneurial types in place to canvass the world, as Mr. Chew does, who know how to make a deal, how to put a deal together, how to sell a product effectively -- who know what it takes to sell a product effectively in a market -- and how to read that market in terms of selling pens, or coffee, or whatever. This is important. This is what is going to make the export trading company meaningful to the banking industry. They have to be professional, and it would seem that BITCO has put together a very formidable organization, by having on board people who come from industry, and who have years of experience in the development of export markets. This is keenly important and, again, if you compare the BITCO operation with what the Port Authority intends to do, the Port Authority appears to have the resources to immediately put small manufacturers in New York and New Jersey to work in producing more products because of the sales they can make.

I think however it is done, it behooves the international communities of New York and New Jersey to get whatever necessary done to get the smaller manufacturers working, producing, and creating more jobs. Speaking for our bank alone, we are relatively young in the

international banking business, having started in 1968. However, we have created eighty-five to ninety jobs, most of those held by New Jersey residents. Who knows whether we can expand on that, given the flexibility given to us through this legislation. We are going to try. We are very keenly interested in the export trading company legislation and what it can do for the bank and for New Jersey.

ASSEMBLYMAN KOPPELL: Let me ask you this, Mr. Policano. When you talk about this legislation, I assume you are talking about the Export Trading Act on the Federal level?

MR. POLICANO: Mostly, yes; right.

ASSEMBLYMAN KOPPELL: This legislation doesn't give any role to the First National State Bank of New Jersey?

MR. POLICANO: No, not at all, only to the extent that a possible -- if the Port Authority forms this trading company and the export trading company is the subsidiary, then they go out as a subsidiary, which is the export trading company of the Port Authority and they sign agreements with various manufacturers to get their products sold, so the manufacturers are out of the picture. They are selling domestically.

ASSEMBLYMAN KOPPELL: Right. You mentioned that your bank is setting up an export trading company--

MR. POLICANO: We are in the process of filing.

ASSEMBLYMAN KOPPELL: Well, filing.

MR. POLICANO: That doesn't mean we are going to set up, but we're filing.

ASSEMBLYMAN KOPPELL: Do I understand that you favor the State of New Jersey and the State of New York authorizing the Port Authority to do what they are authorized to do in this legislation? Does your bank favor this? I do not mean you personally.

MR. POLICANO: Yes, we do.

ASSEMBLYMAN KOPPELL: You heard what Mr. Holsapple said, but your bank is not concerned about the competition of the Port Authority?

MR. POLICANO: Well, we see it as a way to get some of our customer base actively involved in the export market. We see it as a way to possibly work with the Port Authority in arranging financing

packages, in lending the facilities we have established in over ninety countries overseas with different banking groups, to work closely, to give whatever facilities we have to exporting or to manufacturers to develop their export programs. It is not intended initially to put a manufacturer into the export business. It is intended to get the product overseas. As Mr. Chew said, when a manufacturer sees the profitability build-up, and he gains some expertise, he might want to go into it himself. But, initially, what this type of legislation does, whether it is Federal or Port Authority, is to seal, or isolate the manufacturer from the export world. He sells domestically to the export trading company, and he is finished. He gets his profit, he pays his taxes, and he is out of it. The export trading company then has the problem of financing, getting paid and delivering.

ASSEMBLYMAN KOPPELL: Can you think just off the top of your head of a customer of the bank who might be interested in the kind of help the Port Authority could give?

MR. POLICANO: Yes.

ASSEMBLYMAN KOPPELL: Could you name the kind of company, not the name, what they would be selling?

MR. POLICANO: A manufacturer in the food processing area, or in the medical instrumentation area.

ASSEMBLYMAN KOPPELL: Okay, let's talk about medical instrumentation for a moment. How would you feel if you had a customer in the medical instrumentation field making something you think could be sold in the Far East market, and you went to the Port Authority, you called up Mr. Ouida and said, "Herb, I have a medical instrumentation manufacturer who is perfect. I think that Japan would be really interested in this product. We would like to work with you -- the bank would like to extend some financing, and we understand maybe you could take title to the goods and sell them over there." And, he said, "Gee, I'm sorry, Dominic, we just signed up a New York company, and we did an exclusive for Japan with that New York company. So, I'm sorry, we can't do it." How would you feel about that?

MR. POLICANO: If I may answer in my very naive way, and I am very sincere in this, I mean, these guys talk about hiding this and sneaking in here -- well, fine, that's true. If it was my business, I

would probably do the same thing. Being a banker, I'm on the periphery here, but I would expect after listening to Mr. Ouida's rendition, for him to say, "Hey, Dom, here I have an export management company that knows this business, that knows this market. Take that customer to them and let them expand on and build up that manufacturer's product."

ASSEMBLYMAN KOPPELL: Wait a minute; wait a minute. Why are they interested in helping? They have a New York customer which they are trying to sell the goods of to make money on it, right?

MR. POLICANO: Oh, now you have to go back to my poor naive outlook.

ASSEMBLYMAN KOPPELL: Are they going to help a competitor of their own now in that market?

MR. POLICANO: You have to look at my poor naive outlook. If he says his aim through this legislation, and that is the only way this legislation will fly in my eyes, is to help New York and New Jersey-- You know, if we don't believe that, what are we all sitting here for?

ASSEMBLYMAN KOPPELL: But, wait a minute. He just signed up the Koppell Medical Instrument Manufacturing Company, which does business in New York, and he has the Japanese market. He is in deep negotiations with Misubishi to buy a lot of Koppell instruments. Now, you are going to come to him with the Policano Company of New Jersey. Do you think he is going to say, "Oh, gee, that's terrific. By the way, you have Mr. Chew here, and he knows Japan well. I understand Misubishi is interested in buying. In fact, we're negotiating to sell Koppell instruments. Why don't you have Chew come in and compete with us?" Do you really think that is a likely result?

MR. POLICANO: Well, what you are aiming at in the questioning, I think, is to show that competition should exist.

ASSEMBLYMAN KOPPELL: I can't imagine that Ouida, or his people, would be delighted to help your client--

MR. POLICANO: Well, okay.

ASSEMBLYMAN KOPPELL: -- in competition with their own exclusive customer.

MR. POLICANO: I am glad we have a little more levity in this exchange than we had in previous exchanges today, but that is the truth. This is the country we're talking about. We're exporting; we

have to do something. If we can help one another export -- it's always going to be competitive, but you are giving the market and the ultimate buyer the right to make the decision.

ASSEMBLYMAN KOPPELL: But, wait a minute.

MR. POLICANO: It is not my decision to make, okay?

ASSEMBLYMAN KOPPELL: Wait a minute. Let's go back now.

MR. POLICANO: That is what is competitive, it is in the final hands of the buyer.

ASSEMBLYMAN KOPPELL: You talk about the fact that under this legislation, the Port Authority is going to take title. They are going to buy the instruments from the Koppell Company, they are going to have title to them, and they are going to be trying to sell them. How are they going to be helping the Policano client? Why would they help you?

MR. POLICANO: Why -- let me ask you a question.

ASSEMBLYMAN KOPPELL: No, I'm asking you the questions. Why would they help the Policano Company?

MR. POLICANO: I can't answer that. Maybe I can answer it by trying to ask a question.

MR. OUIDA: May I answer the question?

SENATOR LIPMAN: Yes, Mr. Ouida.

MR. OUIDA: I think what you are saying here--

ASSEMBLYMAN KOPPELL: No, I would really prefer you didn't. You can come later. We have to get through the witnesses.

SENATOR LIPMAN: Okay; all right, go ahead.

ASSEMBLYMAN KOPPELL: Let's do it later.

MR. OUIDA: Okay.

SENATOR LIPMAN: Go ahead; it's all right.

MR. POLICANO: Why does the export trading company want to take title? I think the reason why they want to take title is to keep the manufacturer out of the fearful area of the export mystery, and it really is. It really is. So, if a guy takes title -- if the Port Authority goes to a manufacturer of ashtrays and says, "Look, I'll take these FOB your warehouse in Metuchen," if I am the manufacturer, I'll say, "Fine, take the stuff. Give me my money; I have my profit; you export it." Okay, taking title is that significant. That is the reason why they want to take title, because they have a purchase order,

they have a letter of credit to protect the payment, so taking title is not as risky as you might think. If they have a confirmed, irrevocable letter of credit in hand to pay for that, the export trading company has protection of payment, so the manufacturer is safe.

ASSEMBLYMAN KOPPELL: I understand why the manufacturer might like to do business that way, if he is the guy who they are dealing with.

MR. POLICANO: Who's dealing with?

ASSEMBLYMAN KOPPELL: If the manufacturer is the lucky one who gets the Port Authority to represent him, certainly, it is to his benefit. We understand that.

MR. POLICANO: But, it is open to every manufacturer to sign on with any export trading company, whether it be the Port Authority, First National State, BITCO, or Chew. They have those twenty pages in the New York phone book to go to.

SENATOR LIPMAN: I don't really have a question to ask you, Mr. Policano. I think we have covered just about everything, except that you are looking forward, that is, your bank is looking forward to being a facilitator.

MR. POLICANO: Initially, we would be looking forward to facilitating. You know, you can't tell, because you're making an investment. Obviously, your Board has to approve that investment, and now you're looking at return. So, how deeply you want to get involved initially, is the question. Do you want to take title, or do you want to be a facilitator? You get your feet wet by being a facilitator; you take title when you have a Mr. Chew -- I keep using his name -- a person who knows how to sell, because then you are not so fearful of taking title. You are not so fearful of it.

SENATOR LIPMAN: Thank you.

ASSEMBLYMAN KOPPELL: Thank you very much.

MR. POLICANO: Thank you.

ASSEMBLYMAN KOPPELL: Mr. George Nagel. Is Mr. Nagel here? (affirmative response) Mr. Nagel is the Director of Economic Research, New Jersey Department of Commerce and Economic Development.

G E O R G E N A G E L: Thank you for the opportunity to sit here with you today to summarize some of the points on the paper I distributed earlier.

New Jersey State Library

International trade is certainly becoming an increasingly important component in our economy and, unfortunately, that component contributed rather significantly to the recession of 1981 and 1982. Some of the factors involved have, of course, already been mentioned. The high value of the United States dollar has left a lot of United States manufacturers' products uncompetitive. The debt problem of some of the less developed countries has tied up their earnings and their ability to buy American-produced products.

The general economic problems of recession in some of the industrialized countries have also meant shrinking markets for American products. In fact, Chase Econometrics, a leading economic forecasting firm, has very recently estimated that our declining trade accounts had cut 3% off the economy's growth rate during the second quarter of 1983. The GNP grew some 9.3% in the second quarter. Chase Econometrics estimates that it would have been some 12% if we had been able to maintain our export accounts.

The outlook is a little bit brighter than the recent past. Some of the factors are being resolved; the value of the dollar is still very high, but Chase feels that interest rates are generally headed downward in the near future. This will help to improve the price competitiveness of American products.

Industrialized nations are slowly on their way to recovery. Protectionism is on the wane; it is declining somewhat. Protectionism rises with unemployment, recession and economic distress. The return to better times reduces the urgency for protectionistic policies, and will leave the door open for more American products to be sold in these markets.

The less developed countries' debt problem is very slowly being resolved by the IMF and other international agencies. We feel that the Federal Export Trading Company Act of 1982 has resolved, or at least faced one of the major obstacles American exporters and New Jersey exporters have faced, and that is the inability to compete with foreign trading companies and export cartels. That Export Trading Company Act was particularly designed to assist small, medium-sized and, also, minority concerns in entering export markets. We think the export trading concept--

SENATOR LIPMAN: (interrupting) Mr. Nagel, could you, you know, sort of talk about this bill, instead of the Federal bill?

MR. NAGEL: Okay, I am very quickly coming to that. We think that the export trading company concept is a great opportunity for New Jersey. We certainly have a very significant export economy. We rank eighth in the country in the total volume of manufactured exports, and ninth in the number of manufacturing jobs related, directly or indirectly, to exported products. Unfortunately, that share has been shrinking. We do not rank as high as we once did. We think there are many potential exporters in New Jersey who are not taking advantage of the export markets. Our challenge is to try to convert these potential exporters into actual exporters.

We have found, though, from many conversations with businessmen and industry experts, that there is a reluctance, whether real or perceived, to enter export markets. Small firms do not have the kinds of resources, managerial, financial or technical expertise to get involved with exporting. The Department of Commerce has, of course, a Division of International Trade, which provides marketing programs and information assistance, but even this is not enough to overcome those various hurdles encountered when entering the export markets.

The Department of Commerce largely feels that any public policy that is going to promote and encourage export trading companies is going to further the economic development of New Jersey. Currently, there are several legislative bills that will authorize the New Jersey/New York Port Authority to create a subsidiary corporation to provide a full range of export services. We think the Port Authority is a logical choice. It is already well experienced. It has international contacts; it has overseas offices. It already operates a very sophisticated export information trade service. The Federal act will allow and, of course, State legislation will also allow it to provide particular financial assistance to potential New Jersey exporters.

But, in addition to this, I want to mention that the Department of Commerce is available to assist and encourage any export trading company. The Commissioner of the Department of Commerce was at

a ribbon cutting the other day with Mr. Holsapple of BITCO. The Commissioner congratulated him and offered any particular services the Department could offer to BITCO to get them started and off the ground. We found that providing services to these existing export trading companies will help new firms to get into exporting. We also found a very direct link with reverse investment decisions by many firms. We found, even just driving in this morning along the very long driveway, quite a few foreign-owned businesses. Many of those got their start from export trade relations through New Jersey markets. We feel this will all benefit the policies of New Jersey.

SENATOR LIPMAN: So, you like the bill?

MR. NAGEL: I did not say anything in particular about this bill. We feel an additional export trading company will help. If there are some safeguards that are missing or need to be included, that's fine, but the more export trading companies out there, the better.

SENATOR LIPMAN: Generally, the Commissioner of the New Jersey Department of Commerce and Economic Development would look with favor on Senate Bill 1779. Is that what you just said?

MR. NAGEL: I think the basic principles there would be advantageous to us.

ASSEMBLYMAN KOPPELL: Thank you.

SENATOR LIPMAN: Thank you, Mr. Nagel.

ASSEMBLYMAN KOPPELL: Mr. Andrew Ferretti, President, Serrex International. Thank you for coming today, for taking your time.

A N D R E W F E R R E T T I: Senator Lipman, Assemblyman Koppell, the name is Ferrex International.

ASSEMBLYMAN KOPPELL: Oh, Ferrex, I'm sorry. My sheet here is wrong. How do you spell that?

MR. FERRETTI: F-e-r-r-e-x. It's Ferrex International. First off, following all these speakers, what I am going to say will, most likely, be redundant, but I have prepared a very short review and I would like to read it. Then, if you have any questions, please do not hesitate to ask.

ASSEMBLYMAN KOPPELL: Do you have copies?

MR. FERRETTI: No, I don't. This is the first time I have ever testified, or appeared before a Committee of this sort, so I am a novice. As a matter of fact, I'm nervous; I'm very nervous.

ASSEMBLYMAN KOPPELL: Well, just go ahead; don't be nervous. Please hand in your written testimony at the end, and we will make copies.

MR. FERRETTI: All right, fine. My name is Andrew Ferretti. I have been asked to appear before you to give you my views on the act that will be debated before the legislative bodies of both the State of New York and the State of New Jersey. This legislation, if passed, is to authorize the formation of an export trading project, as an arm of the New York/New Jersey Port Authority. The export trade project term used in this proposed act is commonly known in international trade and, especially, in the industry, as ETC's, or export trading companies.

Before giving my views, permit me to make known to you, since I am not a public figure, that I am New York City born. My whole business life has been based in New York City in the field of international trade, except for forty-two months as an officer in the United States Transportation Corps during World War II. I live in Nutley, New Jersey. Our good Senator Orechio, President of the Senate, is my neighbor. I do not necessarily share his views, because I do not endorse this bill which he has proposed. I am also a member of NEXCO. My colleague, Mr. Chew, and I have been in Washington a number of times, and we try to work together.

My business is an export trading company, headquartered in New York City. I am also active in Washington, DC, on matters of international trade. I am on the U.S. Chamber of Commerce's International Policy Committee. As you can see, I am a taxpayer both in New York and New Jersey, and have a vital interest in improving our international trade, obviously.

It has been my livelihood and, at present, it is a rather difficult one. In New York and New Jersey, there are hundreds of exporting companies. In the United States, there are thousands of such companies. There are big ones, and there are small ones. It is difficult to accurately estimate the number of people employed in the industry, but if we take a very modest figure of, say, fifteen persons

per export company, and almost all exporting companies are small, and then take the estimated figure of a few hundred New York and New Jersey export companies, there are many thousands of people employed supporting this industry, and paying taxes.

So, the establishment of another competitor is not needed, especially a competitor that is part of a tax-free establishment. The industry does not object to competition. Competition is good; it stimulates ideas and promotes business. But, from what I have been able to deduce from a very brief study of the proposed act -- since I only received it a short time ago -- the competition by the New York and New Jersey Port Authority is not needed, nor is it fair to establish this entity because: (1) it has a government-sponsored flavor, which gives it an unfair advantage over the public sector; (2) it would have unlimited financial support because of its affiliation with the Port Authority; (3) it would have at its disposal political support, just by its nature of being part of the Port Authority; (4) its affiliation with the Port Authority would give it access to many tangible contacts throughout the two-state area over the public sector, which is not privy to opportunities at the governmental or quasi-governmental level; and, (5) it would also have an unfair direct advantage as part of the Port Authority of being a tax-free organization.

It is very doubtful, in my considered opinion, that the New York Port Authority as an ETC could do more to promote export trade for the two states, than those already established organizations doing this very same job, and paying taxes at the same time, that the Port Authority would be doing, unless, and I repeat, unless there are some special services that can be offered by the New York/New Jersey Port Authority that can afford the industry and help it now. If there are such services, then I respectfully submit that those facilities be made available to the industry now struggling to survive, especially as the U.S. dollar is so strong against foreign currencies.

Let us be realistic. There are people in our government who sincerely believe that almost every product produced in our United States can be sold overseas. That is generally true, but at what cost? We in the industry are surely alert to the possible exportable

products, as recently shown in an investigation by the President's private sector survey on cost control. The investigators found government field representatives aiding small manufacturers who had little potential to export. A good example of the confidence of the private sector is that the New Jersey foreign trade zone is operated by a private organization for the benefit of international trade improvement.

So, if New York and New Jersey wish to support a program to increase exports, I wholeheartedly endorse it, but, not at the expense of the present industry. The knowledge, the abilities, the facilities now available by the public sector of ETC's should and must be used to their utmost, and meaningful support by the states to the industry is welcome.

I might mention too, in closing, that many states do encourage exporting and international trade by supporting programs. There are numerous suggestions which I would be pleased to make. However, before proposing any expenditure under the present world economic conditions, and in light of the very strong United States dollar, I would give it very serious consideration, but, authorization of an export trading project to the New York/New Jersey Port Authority as outlined in this act, would not be one of them.

Ladies and gentlemen, I hope I have given you just a few thoughts as to what I view the act to be and, if there are any questions, I would be happy to answer them. Thank you.

ASSEMBLYMAN KOPPELL: I think I understand your point of view. It is similar to the one expressed by Mr. Chew before, so I do not need to go through it again. However, I appreciate your coming. I think you are giving voice to-- One question I do have is, do you think that your industry is capable of exploiting the opportunities for export which exist right now?

MR. FERRETTI: The answer to that is definitely yes. I think, as mentioned many times this morning, regarding the Export Trading Act -- I think that Ralph Chew and I were not very much in favor of the Export Trading Act, as it is written, or as it was originally written I should say, because we felt the export community could do just as well without it, or with the exception of the banks,

everything could be done. However, one very important point, one reason why we did endorse the Export Trading Act of 1982, and Ralph and I went to Washington because of it, was that it was a catalyst to increase international trade. We in this trade have been looked upon as unprofessional, but we are very, very professional. We are a very important factor in the national economy. Unfortunately -- I say unfortunately for we who are in this industry, the United States has not needed international trade. When you look back ten or fifteen years ago, 5% of our GNP was all that was exported. The reason you have manufacturers today, the reason you have small manufacturers after you, or even the large manufacturers talking export, is because the domestic business is not what it was. Domestic business is poor, and as a consequence, they are looking to the international business, plus the fact that I think this present Administration has recognized the importance of international trade. As the world is getting smaller because of communication, export for the United States is becoming more and more vital.

We have changed our philosophy of export, and I think that we touched on the Japanese trading companies. Ours will not be the same as the Japanese, or similar to the Japanese, because their philosophy of life is totally different. Their way of life is totally different than ours. When you look at their Kumatso in competition with our Caterpillar, Caterpillar doesn't need an export trading company. Kumatso does use a trading company, because of their philosophy, because of their way of life.

MR. LANDES: What do you export in your company? Do you specialize in something?

MR. FERRETTI: Capital goods.

MR. LANDES: Capital goods, and to a special market?

MR. FERRETTI: Worldwide, outside of Canada.

MR. LANDES: A great deal has been made of the question of taking title. When you represent a company here, do you take title to the goods?

MR. FERRETTI: Very definitely.

MR. LANDES: How do you finance that?

MR. FERRETTI: How do I finance it?

MR. LANDES: Yes.

MR. FERRETTI: I finance a large amount of it myself. I have a line of credit with the bank, FCIA, Eximbank. I have gone to the extent of having credits as long as five years, on which I have arranged financing.

MR. LANDES: But, in effect, your account doesn't take the merchandise risk abroad, or the credit risk abroad, you do it yourself?

MR. FERRETTI: Yes, I do it myself. As a matter of fact, I just mentioned to Ralph that we have a half a million dollars worth of merchandise ready to be moved from one of the factories, and we do not have the letter of credit. But, the factory has no concern; they will send their invoices in and they will get paid on the barrelhead. I am the one who has to be concerned about it.

I would have no objection to the New York Port Authority, if it were a taxpaying establishment, but it is not a taxpaying establishment. It is a public facility. There are many things they can do to help the industry.

SENATOR LIPMAN: Do you want to make any suggestions?

MR. FERRETTI: Yes. Regarding their trade missions, they could have matching programs soliciting manufacturers and making known the manufacturers who are interested in export, or interested in increasing their product by passing it on to all the export companies. They could prepare a proper and correct list of all the export trading companies in the United States, or in New York and New Jersey. There are many more.

ASSEMBLYMAN KOPPELL: Well, if you want to send us a list of the things you think they should be doing, that would be helpful. Think about it some, and then send us a list.

MR. FERRETTI: I would be happy to do that. Is there anything else?

ASSEMBLYMAN KOPPELL: No. Thank you very much.

MR. FERRETTI: Thank you.

ASSEMBLYMAN KOPPELL: Mr. Harold Ross, Executive Vice President of the Gregg Company. Thank you for coming.

H A R O L D R O S S: Thank you, Assemblyman Koppell and Senator Lipman, for having me as a witness. I am in total agreement with the sentiments expressed by Messrs. Holsapple, Chew and Ferretti. I shall

New Jersey State Library

be very brief. I am against Senate Bill 1779 and, of course, Bill No. 8153 in the State of New York, for a very good reason, that is, because it establishes the Port Authority as an unfair competitor to private industry.

That is my statement.

ASSEMBLYMAN KOPPELL: What is your business, Mr. Ross? Explain what the Gregg Company does, if you will.

MR. ROSS: We represent companies which export railway related items, products and services. In the State of New Jersey, we have shipped steel fabrications and, also, railway car components from the State of New Jersey abroad.

ASSEMBLYMAN KOPPELL: Is your company an export company? Is that what you are?

MR. ROSS: Yes, we are an export management company, and we specialize in railway related products.

ASSEMBLYMAN KOPPELL: Are those products manufactured in this region?

MR. ROSS: Some of them are, but most of them are not, for a very good reason. The type of export support by the United States government is a joke compared to the export support given by other foreign countries.

ASSEMBLYMAN KOPPELL: What could the Port Authority do to help, rather than to compete with you?

MR. ROSS: The Port Authority could zero in on the type of services for this region that are presently being provided by the Commerce Department. They provide information as to clients who are interested in products; they arrange trade missions; and, they provide credit information. There was emphasis placed on financing in conducting export business. This is extremely critical, and probably a state-supported export/import entity would be of help.

ASSEMBLYMAN KOPPELL: A bank -- in other words, a bank which would make loans to facilitate exports, or finance transactions?

MR. ROSS: A financing institution that would support, either directly or through local banks, export business.

ASSEMBLYMAN KOPPELL: Are there businesses in your general area that are too small for you to handle?

MR. ROSS: No, there are no businesses which are too small for us to handle.

ASSEMBLYMAN KOPPELL: Thank you for coming today, Mr. Ross. I think your testimony was helpful. Thank you. Is Mr. White here? Albert E. White? (no response) Is Mr. Nielsen here? (affirmative response) Okay, Mr. Ole H. Nielsen, First Vice President of NEXCO.

O L E H. N I E L S E N: I am Ole Nielsen, Regional Sales Manager of Hockman-Lewis Limited, a company located in West Orange. I am also the First Vice President of NEXCO, the National Association of Export Companies. We have about 200 members nationwide. NEXCO is headquartered in New York City.

Export management companies are sales intermediaries, filling a very specific function in the marketing of United States made products throughout the world. Mostly, the export management company will facilitate the export for smaller United States manufacturers that would otherwise not have the means of entering the international field in an economical way. Most export management companies can perform the international marketing function by combining the activities of a series of smaller United States manufacturers with noncompeting products. Again, we utilize our expertise in one or more market segments. In addition, the export management company has the experience needed to cater to the varied demands of the numerous countries throughout the world.

NEXCO, which you may have heard about, is an organization of export management companies throughout the United States. It is a very elite organization, because membership is only available to companies that have exclusive representation for one or more United States manufacturers for one or more foreign markets. On the other hand, very few export trading companies would fulfill these membership requirements. Export management companies are sales oriented but, in addition hereto, we can fulfill all the functions embodied in the basic concept of marketing. This goes very far beyond the usual activities associated with domestic sales intermediaries and factory representatives.

We are generally specialists in several marketing segments, and we travel very extensively overseas to service a network of

distributors and to find and create new distributors and outlets for our products. We keep abreast of all the changing conditions in our overseas market by these personal visits right on the spot, thereby gaining a very intimate knowledge of the market, which is invaluable and enables us to assist our United States manufacturers to adapt their products whenever necessary to the local requirements of the overseas market. In a few words, we act as the export department of each of our manufacturers. Normally, the export management company takes title to the goods delivered by the United States manufacturers, and thus completely relieves them of any financial problems. They make a domestic sale, and we take over the merchandise at that point -- and the risks.

You will find an unusual concentration of export management companies in the New York/New Jersey metropolitan area. That is very easy to verify by going through the Yellow Pages. The company I represent, Hockman-Lewis Limited, and our affiliated companies, Bennett Pump International Corporation and Rotary Lift Export Corporation, are active in the export of equipment associated with gasoline stations, automobile repair shops, and liquid handling equipment, as well as garden and agricultural type compressed air sprayers for the application of insecticides and fungicides, a sideline we picked up during the war and the first years after the war.

We are located at 200 Executive Drive in West Orange, and our company has been active since the early 1930's.

Taking into consideration our experience which spans almost fifty years, I am honored to be able to testify today, and I hope my few comments and suggestions will assist in making the proposed legislation a positive assistance to the small United States manufacturers' efforts to enter the international market.

I feel that the Port Authority of New York and New Jersey could make a very positive contribution by developing and supporting programs like REAP, Regional Export Assistance Programs, by educational and advertising programs directed to the regional manufacturers, by the establishment of export financing programs tailored to assist export activities, specifically directed to the smaller companies' needs, and maybe also by state tax programs, giving specific benefits for export related activities.

On the other hand, I feel that the activity initiated by the "Export, Port Authority Trading Company" is misguided and has every possibility of developing into yet another massive and expensive state organization, which is completely contrary to the free enterprise philosophy of our country. Let us not forget that free enterprise is what made this country what it is today, one of many contributing factors. An export trading company under the Port Authority of New York and New Jersey, however well intentioned, has similarities reminding me of government organizations that you find in Socialist nations. Such organizations exist only at the expense of taxpayers' money, and, once created, tend to grow by virtue of bureaucratic energy and self-preservation.

The major impediment that the United States export community encounters at this time, and has encountered for the last several years, is the relatively high value of United States currency, combined with what I would call unfair support by foreign governments of their exporting companies, allowing them to quote prices, and more specifically, financing terms which we cannot match. I'll mention one specific example. A few years ago we quoted a very large set of equipment to one Central American country for a national oil company there, a country where we exported the same equipment year after year for a good many years. One of the pivotal requirements in that particular case was financing over a period of three years. Because of the level of interest, we had to quote 20% interest per annum. Brazil and Mexico came in at a range of 8% to 10%. That order did not go to the United States manufacturer, or several United States manufacturers, obviously. This, of course, is a problem which is both national and regional, but it is something that should be taken into consideration, how to work around that problem in some fashion.

If we maintain our tradition of free enterprise, with the assistance of state and national governments, then there is no doubt in my mind that United States manufacturers can compete internationally. However, we must have some kind of a system to put us on an equal footing with what we encounter out in the international market.

ASSEMBLYMAN KOPPELL: Thank you very much. You mentioned some very specific areas that your company deals in. I was wondering,

are there areas where companies such as yours are simply not available? One argument for doing the Port Authority thing would be that there may be areas of manufacture that companies like yours simply do not do business in.

MR. NIELSEN: That may be true. We specialize in a certain area, and we endeavor to add to the lines that we presently handle, lines which are compatible in one fashion or another. That is the only economical way to market.

ASSEMBLYMAN KOPPELL: Do you think there are areas of manufacturing in this region, in New York or New Jersey, where the manufacturer could be looking for someone like you, but can't find such a person to help him or her?

MR. NIELSEN: Considering the amount of export companies which exist here, I would find that difficult to believe. It should be possible.

SENATOR LIPMAN: Do you mean that without the Port Authority's entry into this kind of export trading project, there are already enough private export companies? Did you just say that?

MR. NIELSEN: There are many. Now, whether there are enough or not, that is a difficult question to answer very specifically.

ASSEMBLYMAN KOPPELL: Thank you very much. Steven Bissenius, Business-Government Relations Officer, International Trade Administration, United States Department of Commerce. Thank you for coming today.

S T E V E N B I S S E N I U S: Thank you very much. With me I have my counterpart who covers the New York Division, Prentice Nolan. I cover the Mid-Atlantic Division, including New Jersey. I realize this has been a long set for you, so I will make my comments very brief. Originally to speak in my place, was the Regional Managing Director, Mr. Tom Murray, who regrets that he is unable to be here.

What we have done, of course, throughout the Department of Commerce, since the law was passed -- we were charged by the legislation to promote the concept of export trading companies throughout the country. Since that law was passed and signed into law over this past year, we have put on roughly forty conferences throughout the United States. We have spoken to roughly 12,000

businessmen. Those are currently broken down into export management companies, banks, lawyers, or other people who might be interested in participating in this act.

We are working in a variety of areas with business and government. We are charged principally with the role I am in now, to work with state and local governments to enhance their capabilities to supplement what we have been doing on international trade promotion. We have but a skeletal crew and, as was alluded to earlier, we have not always been as successful as we would have liked to have been in counseling small businesses.

We are basically generalists. The export management companies, and we certainly hope the export trading companies, will be much more specialized, and will actually deliver the product overseas. We have been working principally to help develop an awareness. Only 12% of our manufacturers are exporting today, and many of those are not in all the markets that they could be. That is out of 250,000 manufacturing corporations, plus the many service organizations which exist in the country.

Principally, we have been talking to people on a general basis about what the act provides, plus what the Federal Reserve regulations and the Department of Commerce regulations do to implement that act. We are talking basically about helping anyone who might possibly do it, the manufacturers' association, Chambers of Commerce, or local governments. If they are setting up such an operation, we are there to help with our international network. We have forty-eight district offices in the United States, located in most of the major cities, and we have locations in seventy countries. We took over the foreign commercial service from the State Department about three years ago. It has been on a transitional basis, and we have, I think roughly, 150 spots in those seventy countries.

I have quite a bit of material about the Export Act itself, but I think you are very familiar with its provisions. Its principal aim was the removal or waiver of antitrust provisions. Obviously, that catered directly to the private sector. The antitrust provision, of course, with its threat of triple damages, certainly was a big enough deterrent for companies of a similar manufacturing area not to go

together to export together. It was a totally unnecessary prohibition, as we realize now, and other countries never had those types of prohibitions.

So, that is principally what the act was doing. Most of the act did focus on the private sector, but there was a section which dealt with the public sector. Section 311, Subsection 5, under definitions covers, "A partnership that is created under and exists pursuant to the laws of any state of the United States, a state or local government entity, a corporation, whether organized as a profit or non-profit corporation that is created under and exists pursuant to the laws of the United States." This concept, as was indicated, originated in the Senate version of the law, and was adopted by the Conference Committee which acted thereafter.

I have been very active for this year. I have attended many of the conferences throughout the United States that were held on export trading companies. It is my understanding that the thinking behind the allowing of "not for profit," or public entities, was that if the private sector did not act on it, there would be a possibility of enabling legislation for private entities or trade associations to either contract out as an entity to the private sector to handle those members, or the option of the local economic development group to form their own.

There are quite a few areas that have done it, and I have some backup information to show what other entities are doing throughout the United States. As was alluded to, the PIDC, the Philadelphia Industrial Development Corporation, has a rather innovative program. They have retained some private counsel and, working in conjunction with the best of both worlds, they are suggesting that they would use the resources of the City aimed and managed by the private sector. They quote themselves as creating the initiative for it, but they realize that the entrepreneurial spirit works best in the private sector. So, there are several different ways of looking at it. They have realized that they simply want to see the end result, but they feel that for their circumstances, they are not the ones to do it.

The Port Authority of Norfolk, Virginia, has, as indicated, filed articles of incorporation for an export trading company, but they have done nothing as yet. The State of North Dakota has a rather unique situation. They are setting up a statewide export trading company, but they have unique capabilities as they own the state bank as well. So, they have a little different area.

But, the Department of Commerce, because of all its efforts, does appreciate, certainly, the need for international trade and export promotion, and we feel it is everyone's responsibility. There is a role to be played by everyone. But, as far as specific legislation in a case like this, we would yield to you, that is, a decision of your own. We do not think it is our place to become involved in a local situation. You know the circumstances better than we do. But, as far as whatever you decide, we are certainly here to aid the private and public sectors the best we possibly can.

We realize we have but a skeletal crew out there. We deal with, roughly in a state the size of New Jersey, only 14,000 manufacturers, and we have roughly seven trade specialists trying to make house calls, as is done. Most states do not do it. We have started a program this year through which we will train state people to go with us for on-the-job training, so that they in turn can go out and make alternate calls to businesses and counsel them that way. The same is done with cities, and on out. Eventually, we hope to saturate the 250,000 manufacturers so that they are at least aware of the opportunities out there, and from there go over to the private sector.

If there are any questions, I would be happy to answer them.

SENATOR LIPMAN: Joe Capalbo has one.

MR. BISSENIUS: Yes, go ahead.

MR. CAPALBO: Is there any linkage between the United States Department of Commerce and the State Department of Commerce in relation to export trade?

MR. BISSENIUS: Yes. As a matter of fact, one of the first programs we had was called a "Co-location Concept." We placed one of our best trade specialists from the region in the offices of Newark, and we are going to be doing the same with most of the state offices throughout the country, training them and making them aware, using the

best computer capabilities we have, which will link with our network overseas. The same is offered to the port authorities and other people as well. We are trying to bring our returning foreign service officers into areas like port authorities and state Departments of Commerce, so there will be that awareness, and that network in the turnkey operation, so that people can be briefed appropriately as to what is actually happening. It is a fast changing market overseas, and that is why I said we want to make sure that the most current, the best information possible is at the disposal of the manufacturers.

ASSEMBLYMAN KOPPELL: One of the things that the Port Authority uses in terms of it going into this area -- maybe they don't say this directly, but I certainly get this indirectly -- is that the private sector hasn't really done the job, that they really haven't reached out to small companies nor provided the facilities and opportunities for those companies to get involved in exports. That is what the Port Authority is saying. You know, you are involved in going around the country and talking about this, what do you think about that suggestion?

MR. BISSENIUS: Oh, we have but 12% of all manufacturers exporting. Even though we consulted various companies, they did not want to export necessarily, for some reason. There is confusion, there is a lot of hassle. Theoretically, the ETC Act itself was to eliminate much of the hassle that has been associated with exporting. The economy of scale has been lacking with many export management companies, and that is one of the reasons there was a debate between the Department of Commerce and the management companies. Principally, the lack of competitive financing has limited many of the EMC's from providing a service to a company which has marginal attraction overseas. We have estimated at the Department of Commerce that there are 25,000 manufacturers which have a competitively priced, competitively situated product of superior quality which could be marketed overseas if done properly. American University and George Washington University just completed studies for us, in which they indicated that in many case studies, companies, even those which have ventured overseas with a good product at an excellent price, still lost sales due to lack of competitive financing.

So, there are a lot of things involved. It is not just the fact that they haven't been contacted. A lot of it is the willingness of the manufacturers to accept it. Sometimes we feel that we are talking to ourselves. We go out and try the best we can, but it is going to take a combined effort to develop that awareness. Many small manufacturers have never had the need before to go overseas. Suddenly, their product is obsolete by domestic standards, and they suddenly find themselves forced to look elsewhere, or change their product line.

So, I guess technically you can't point a finger at any one individual who hasn't tried. I don't know of too many companies which have turned them down unless, of course, there is an obvious factor in that market where their product would have little acceptance. I understand the businesses are of marginal profits anyway, so it is difficult.

We would have to say that it is possible that companies have been turned aside. I think that is one of the reasons an attorney out in Pittsburgh wrote in a report -- he pointed out the fact that there are some areas of the country where there are certainly not the number of EMC's that exist in this area. In North Dakota, I don't know sometimes if there are twenty pages in the phone book, let alone twenty pages of EMC's. So, the fact is, in that case he was susggesting that that is a logical possibility, a very rural area, with industry scattered over vast miles, where possibly a government entity might play a critical role, without tripping over the private sector.

ASSEMBLYMAN KOPPELL: Are you familiar with what Oregon is doing?

MR. BISSENIUS: I am not totally familiar with that, no I am not. I understand that they have formed an export management company, but I just have a smattering. I focus principally on what is happening on the Eastern Seaboard. I know the State of Iowa recently talked about forming a state export trading company, but they again also yielded to being a catalyst to bring the private sector together.

ASSEMBLYMAN KOPPELL: Do you have a concern -- when I say you I mean the United States Department of Commerce -- about the competitive aspects of this to people like the export management company people who testified today?

MR. BISSENIUS: The end result we are after, of course, is the reemployment of the country and the products exported overseas. If, in fact, as Mr. Chew indicated, the net result would be to force other companies out of business, then we would not be any further ahead, if that, in fact, is the case. The Export Act itself does provide in Section 303, Subsection 3, that a certificate of review be issued a company, on the basis that it not constitute unfair methods of competition against competitors engaged in the export of goods, wares, merchandise or services of the class exported by the applicant. We are concerned about unfair competition, absolutely.

ASSEMBLYMAN KOPPELL: That is a condition to what?

MR. BISSENIUS: To granting a certificate of review.

ASSEMBLYMAN KOPPELL: What is that?

MR. BISSENIUS: The certificate is pretty much the waiver. The Commerce Department grants a certificate to become an export trading company with a waiver of antitrust provisions. The governments are not eligible under the antitrust situation. They have been waived by the courts.

ASSEMBLYMAN KOPPELL: Has the Port Authority applied for that?

MR. BISSENIUS: I don't think so. We have had twenty-two applications, but there have been no issues of certificates yet.

ASSEMBLYMAN KOPPELL: Mr. Ouida, has the Port Authority applied?

MR. OUIDA: We would not apply until the legislation is passed. At that time we would be receiving the additional protection provided by the Federal legislation.

FROM AUDIENCE: I hope we can get it.

ASSEMBLYMAN KOPPELL: Does anyone have anything?

MR. LANDES: Well, I'm just looking, in the light of what Assemblyman Koppell said, toward that particular gap that the public entity is needed for. In all this going around and talking to manufacturers, did you find manufacturers who would be willing to export if, in fact, they really made a domestic sale, if the title was immediately taken by the export trading company, but whose product acceptability abroad was not yet sufficiently known? In other words,

where there was no sale already abroad, where a public entity might give them developmental assistance, loans to develop the product, buy the goods and take title before there was a sale, where a private company could not afford to do that?

MR. BISSENIUS: There is no question that the title makes a great deal of difference. Many of these companies we are talking about might have twenty or twenty-five employees. They do not necessarily have the capital, as far as even manufacturing the items. The banks do not want a mortgage on their family, they want either the money or something liquid. The question is, and it has been the basis of finance in that case, they are unable to provide the goods because they do not have the money to produce the goods to begin with. Based on that, they are not able to deliver the goods overseas. So, it is not a question of whether it is the private or the public sector. In that case, the fact is they simply do not have capital available for preexport finance and, then once that is done, they do not have the financing available to pay off their creditors afterwards.

It is a difficult situation. They are very small companies, accustomed to dealing with neighboring states, who now find their agricultural equipment, or whatever it might be, suddenly in demand in South America or in Africa, a high demand for it. But, the problem is they simply do not have the money. They are used to thirty days return on money and credit. The local banks do not have the risk analysis to go beyond Peoria, so they do not want to engage in a sale to Latin America. The same question was alluded to today. Eximbank traditionally has dealt with large manufacturers. So, we are trying to see if at all possible, and I perused a report today earlier-- Most of the fifty states are beginning to seriously consider helping to underwrite the risk. The banks have the money; it is the risk factor they are concerned about. If you would like me to, I will provide copies of the George Washington study and the American University study, which point out that if a risk factor were addressed as much as 4% less, that loan could be delivered to that small manufacturer.

ASSEMBLYMAN KOPPELL: I would appreciate any such reports for our file. You can send them to 270 Broadway, New York City, with my name and the name of my Committee. You can see Rita Gordon in the

front row, and she will give you the address. I have no other questions. Thank you. Mr. Donald Scarry, Director of Economic Research, New Jersey Business and Industry Association.

D O N A L D S C A R R Y: Senator Lipman, Assemblyman Koppell, I have a prepared statement, and I think you have copies of it.

The New Jersey Business and Industry Association, which represents over 12,000 employers in the State, recognizes the importance of international trade to our members, to all the State's employers, as well as to the citizens of the State. International trade represents a significant source of income and employment for New Jerseyans. We support the concept of developing public sector involvement in the promotion and development of international trade opportunities, and we congratulate Senator Orechio and the cosponsors of Senate Bill 1779 in directing attention to the importance of international trade to the State's economy. Given this, however, the Association has difficulty with the thrust of this bill. We feel it would create a government entity that, at one and the same time, is incapable of providing equal treatment to all of the State's employers interested in trade opportunities, while competing directly with parallel private sector organizations engaging in the same activity for profit.

That export activity is important to the State is unquestioned. With the creation of the New Jersey Department of Commerce and Economic Development in 1982, the old Office of International Trade was raised to the status of a Division. That change signaled a renewed emphasis on the importance of international trade in the State's domestic economy. This emphasis was clearly appropriate; the health of the economy of the State of New Jersey is linked in important ways to international trade. The United States Department of Commerce's 1981 Annual Survey of Manufacturers reports that there were just about 175,000 jobs in New Jersey related to manufactured exports. This was just a bit over 6% of New Jersey's total private sector employment. In 1981, the value of New Jersey manufacturers' direct exports was just under $4.5 billion. The total for direct manufactured exports and activities supporting exports was in excess of $8.2 billion. Export activity, both direct and support,

accounted for more than 11% of the value of all manufacturing shipments in New Jersey. All of the State's major manufacturing industries participate in this activity. New Jersey exports machinery, instruments, chemicals, and agricultural products, as well as a broad variety of manufactured goods. The list of companies that export include the largest firms in the State: Becton-Dickinson, DeLaval, Squibb, and Johnson & Johnson, as well as thousands of smaller, less well-known firms. Given the importance of international trade to the State's economy, the New Jersey Business and Industry Association will support all activities and organizations designed to foster international trade.

However, the organization that this bill would create would not serve the interests of manufacturers and other employers located outside the service area of the Port of New York and New Jersey Authority. There is considerable manufacturing, agricultural, and service activity located in central and southern New Jersey that would receive no benefit from this organization. There are public port organizations in Camden that would not be able to share in the benefits of an export trading company active only in the Port Authority's area. This is not to say that the volume of export activity in the Port Authority area is insignificant, but only that the benefits of this export trading company would not be available to a considerable portion of New Jersey's employers, nor would it cover significant South Jersey ports.

The exclusion of the ports of southern New Jersey could be of special importance to that region's economy, in that there is a significant worldwide market for agricultural and fishery products; these regions concentrate in these activities, as well as have a substantial manufacturing base. If there is to be public sector entry into the export trading company field -- and there are some serious questions regarding the necessity of public entry at present -- the New Jersey Business and Industry Association would prefer an organization that can offer its services to all the citizens of New Jersey.

An additional characteristic of the organization that would be created by this bill is that it would be in direct competition with the private sector. There are several captive export trading companies in

existence in the State of New Jersey, designed to serve the interests of particular corporations. Bancorps International Trading Corporation (BITCO), which was represented by Mr. Holsapple this morning, is a statewide private sector export trading company owned by several banks. Presently, BITCO is contemplating statewide operations in New Jersey; it may be the first of many such private organizations. It and the Port Authority will be in direct competition. Additional private sector efforts at forming or expanding export trading companies will also have to consider the effects of direct competition with the Port Authority, with its formidable financial and human resources, as well as special tax status. The United States Export Trading Act (October 8, 1982), which authorizes export trading companies, is relatively new legislation. Little is known about the private sector's willingness and/or ability to enter this area. Nevertheless, there is no present indication or demonstrated need for public sector entry in direct competition with fledgling private sector companies.

All this is not to say that there is no role for the Port Authority in developing export trade activities for its port area. The Port Authority is a strong, competent, and capable organization. It can fill the role of information gathering, coordination, and promotion of export activities as perhaps no other organization in its area can. This is an appropriate promotional role for a public sector body.

However, in terms of the traditional tests for the appropriateness of direct public competition with the private sector -- demonstrated benefits to the public at large, failure of private sector activity, or significant societal cost savings -- there seems, at present, not to be a valid reason for the creation of a public sector export trading company in direct competition with the private sector.

For these reasons, the New Jersey Business and Industry Association recommends against Senate Bill 1779.

SENATOR LIPMAN: We will, after a bit, give Mr. Ouida a chance to reply to that.

MR. SCARRY: All right.

ASSEMBLYMAN KOPPELL: I have a question. Did you say the New Jersey Business and Industry Association represents 12,000 businesses?

MR. SCARRY: Yes, sir.

ASSEMBLYMAN KOPPELL: Have you had meetings with your constituent members about the problems of export?

MR. SCARRY: We have prepared a survey which has been administered twice, about the problems with exports, whether they export, and what they think their problems are, but we did not include these areas. We were concentrating more on general global demand and monetary fluctuation. So, while we have done some work in the area, I do not think it is responsive to this issue.

ASSEMBLYMAN KOPPELL: What I would be interested in knowing is whether the private sector-- We have heard from private sector export companies, and the Port Authority suggesting that those companies simply cannot do the job for various reasons. The companies themselves say that there are problems, such as financing, in which they could use help, but there is a more serious charge, if you will, or reason behind the Port Authority's legislation. That is, companies do, in essence, apparently exactly the same as the Port Authority trading company legislation wants to do. The Port Authority is saying they are not doing the job, they are not reaching out, they are not providing the facilities for these companies, nor the marketing for these companies. I would just be interested whether your members perceive that there is that big gap there.

MR. SCARRY: From casual rather than systematic contact with members, I am not sure that there is such a gap between the private sector trading companies. There are some harsh economic realities that small companies with marginal products are not going to be serviced by anyone. However, it seems that the more traditional test for the activity of a public sector entity would be whether there is some systematic exclusion of firms, not merely for the harsh economic realities of the fact that dealing with them may not be profitable, but excluding them -- heavy exclusion of minority businesses, heavy exclusion of businesses owned by women, heavy exclusion of certain kinds of businesses, would trigger some kind of threshold determination that this might be an appropriate area for the public sector to step in, in direct competition.

ASSEMBLYMAN KOPPELL: Or, just nobody there. I mean, let's assume I start manufacturing computers, and I have a good product that

I am selling well in New York. Then, I decide I want to sell these computers in Europe. If I can go to the phone book and there are fifteen companies I can interview, and each one of them is going to be bidding for the business, and they have offices in Europe or affiliates in Europe, I don't need the Port Authority to help me with that.

On the other hand, if that kind of service is not available, maybe it should be made available.

MR. SCARRY: One of the witnesses, and I forget which one, mentioned that there were many, many pages of phone listings in New York City. I think the fact that someone may not be able to get financing is a harsh, economic problem, but it doesn't seem to me to be a necessary and sufficient condition for the public sector to move into what is normally a private sector activity. There are a lot of firms that are otherwise well-financed, that cannot finance every deal, and the public sector can't walk in and finance all of those. The absence of finance in a particular situation, unless there is some systematic social policy being trampled on, I don't think is a reason for public sector activity.

One of the things I would like to make clear, by the way, is that I have had some dealings with the Port Authority over the last thirteen years, and if it did enter this area, it would be a formidable company. It has wonderful human resources, and financial resources, and what I just said has nothing to do with the ability of the Port Authority to do this. I am sure that if they enter the area, they will do a marvelous job on it.

SENATOR LIPMAN: My concern is that you talk about not only minorities and women, but public port organizations in places like Camden.

MR. SCARRY: There are two public ports in Camden; there is a municipal port, and there is the Department of Commerce's South Jersey Port Corporation. There is also some fledgling or budding activity in Port Salem, with an attempt to import some fertilizers on barges, and some barge-type export of agricultural products. I know barges and exports are not international, but I mean, there is significant dependence in South Jersey on agricultural development, and I would like to see as an alternative, a statewide Eximbank that would service

statewide export trading companies, so we can include some of the benefits of this type of legislation to South Jersey.

ASSEMBLYMAN KOPPELL: Thank you very much.

MR. SCARRY: Thank you for your time this morning.

ASSEMBLYMAN KOPPELL: Is Alan Parter here? (negative response) We are expecting him. He is from the New York State Department of Commerce. Is there anyone else who wishes to testify at this time? (no response) The Senator and I have agreed that we will take a twenty-minute to half-hour recess to await Mr. Parter. We will reconvene then in approximately twenty minutes.

(RECESS)

AFTER RECESS

ASSEMBLYMAN KOPPELL: We are ready to reconvene. We do not have too much additional testimony, so why don't we get started? Alan Parter, Deputy Commissioner, New York Department of Commerce. Alan, will you please come forward? We appreciate your coming over here to New Jersey. I appreciate it as a New Yorker, and want to thank you.

SENATOR LIPMAN: New Jersey thanks you too.

A L A N P A R T E R: I am very pleased to have the opportunity.

ASSEMBLYMAN KOPPELL: Do you have a prepared statement?

MR. PARTER: Yes, I do.

ASSEMBLYMAN KOPPELL: Do you have copies?

MR. PARTER: I do not have many, but here is what I have.

ASSEMBLYMAN KOPPELL: Thank you.

MR. PARTER: Would you like me to begin?

ASSEMBLYMAN KOPPELL: Yes, please.

MR. PARTER: My name is Alan Parter. I am Deputy Commissioner of Commerce for the State of New York, with the responsibility for directing the International Division. The International Division has as its responsibility the promotion of products and services made in New York and, also, the attraction of foreign direct investment to the State.

The New York State Department of Commerce wishes to record its support in principle for the proposed legislation which permits the Port Authority of New York and New Jersey to establish an export trading company.

This type of legislation will carry forward the intent of the Federal legislation, which recognizes that port authorities and other public entities can effectively perform a valuable function to increase exports by acting as trading companies. In so doing, the Port can provide a developmental activity for smaller manufacturers in New York and New Jersey that require public sector assistance. Such assistance is not now being provided to any appreciable extent by the private sector. The reason is that overseas promotion and marketing require substantial up-front investment of time, effort and money in order to develop an interest in a product or service, and it may take two or three years before this investment is recaptured, and profitability begins.

Private sector exporters cannot be faulted for being unwilling to make this investment unless they are very sure that success will occur fairly rapidly. But, there are many products and services that have an excellent possibility for successful export sales only if experienced marketing and promotional skills are applied for a longer period of time. This is precisely where the Port Authority Export Trading Company can make strong inroads and break through the barrier that has prevented many companies from gaining a foothold overseas.

It would be beneficial for New York/New Jersey to be the first to have a fully functional ETC. The Port has done all the preliminary work and is now being copied by other ports around the United States. If the Port maintains its lead as an innovator, it should help attract interested buyers, agents and distributors abroad.

It is essential that the export trading company be fully functional, because without the authority to finance shipments and to take title to them, their activities are limited to marketing and promotion. Although these functions are extremely important, they are just the first steps in a fully integrated trading company plan. The inability to take title and to finance, strips the organization of two

vital functions, without which the success of the operation will be very much in doubt. By not passing legislation enabling the Port to take title and finance sales, failure is virtually assured.

An indirect but very positive effect of the legislation is that it will complement the various states' efforts to establish export financing facilities, since it will establish the principle of the importance and the need for this type of financing on a state level. This could then lead to export financing being available to all qualified firms, which would have a market impact on overall export sales.

The International Division is very much involved with its export programs which have been developed to a high degree, and there are many other entities with export promotional activities, including the New Jersey Office of International Trade, the United States Department of Commerce, District Export Councils, World Trade Clubs and others. But, in spite of all these efforts, there is still a lack of export awareness on the part of many business firms.

The Port Authority Export Trading Company would work to overcome this export unconsciousness. In addition, the trading company provides an ingredient for its member firms that no public entity has been able to furnish to date, that is, direct assistance from developing the lead through collection for the sale. The marketing, promotion, shipping, financing, insurance and banking details of export sales transactions would all be taken care of for the member firm. This comprehensive approach is the best possible way to help selected companies make export sales which will, in turn, create awareness among other firms of the potential for exporting.

The New York State Department of Commerce believes that these increased sales and increased awareness all lead to the creation of new jobs for both New York and New Jersey.

ASSEMBLYMAN KOPPELL: Mr. Parter, the Commerce Department is involved in trying to help all businesses in New York State, is that right?

MR. PARTER: That is correct.

ASSEMBLYMAN KOPPELL: To help stimulate the economy, activity--

MR. PARTER: Yes, wherever we can.

ASSEMBLYMAN KOPPELL: Assume that I am a manufacturer of medical equipment, and I go to the Port Authority and say, "I would like you, Port Authority, to help me sell my equipment in Europe." And, the Port Authority responds and says, "Well, we would like to help you as an export trading company, but we already have an exclusive arrangement with another medical equipment manufacturer in the State of New Jersey, which we have entered into an agreement with." Then I come to you, Mr. Parter, at the Commerce Department and I say, "Hey, what is going on here, Mr. Parter? You are supporting this Port Authority export trading company, and I am a New York manufacturer of medical equipment who just went to them and asked them to help me, like you say they should be helping people," in your statement here, "but, they won't help me because they have entered into an exclusive marketing arrangement with my competitor over in New Jersey." What do you answer, Mr. Parter?

MR. PARTER: There are a great many ways that people involved and interested in exports can be assisted, and it depends on the particular firm as to how best they can be assisted. There are agencies such as the International Division which can do a great deal and, taking from your example, I would tell them right away that I have three or four programs that may be of assistance to them, so the state, in some ways, could be helping them. I do not know at this particular stage how the decisions are made as to which firms are represented and which ones are not. An important ingredient of this is the criteria used by the Port in choosing the firms that it chooses to represent.

ASSEMBLYMAN KOPPELL: Do you think the state should have any role in establishing these criteria?

MR. PARTER: The state?

ASSEMBLYMAN KOPPELL: The State of New York.

SENATOR LIPMAN: The Department of Commerce, to be exact.

MR. PARTER: No. We certainly have our ideas, and we have spoken to the people at the Port who are involved in it. We have expressed our ideas in terms of criteria. At all times, states get involved with programs where people have to be turned down. If I take a trade show of medical equipment manufacturers to Singapore and I am

only allowed to have five, and six sign up, I have to turn someone down also. That is not an uncommon situation. What the state has to be careful to do, is to choose a method and a means of criteria that is fair, so that the public at large will be helped on an "as needed" basis whenever possible.

ASSEMBLYMAN KOPPELL: But, there is no necessity that the Port Authority has to do this on an exclusive basis, is there?

MR. PARTER: That is part of the criteria, and I do not know at this particular stage whether they are doing it on an exclusive basis or not. That is one of the aspects of the criteria that has to be decided.

ASSEMBLYMAN KOPPELL: Are you concerned in the Department of Commerce that the Port Authority is competing with private taxpaying businesses in the State of New York, and that some of them are fearful that the Port Authority may actually drive them out of business?

MR. PARTER: Yes, and that is a concern which we have expressed to the Port. That also goes to the criteria. We have been advised by the Port that they are trying to get as clients, those firms which are not in competition. As I said in my statement, and as I believe in terms of my practice in trying to promote export, there is a large reservoir of firms throughout New York, and I am sure throughout New Jersey, which are not involved in export at this time, and which should, or could be involved in export. As I see the export trading company it is the seed ground, and it is the area that would be helpful to those companies which are export trading companies. There are those firms which the export trading companies are not interested in, and it is those firms which should be concentrated upon so that they can be brought to a stage where an export management company or an export trading company in the private sector can take over.

ASSEMBLYMAN KOPPELL: Do you know a man by the name of Ralph Chew?

MR. PARTER: I know of him.

ASSEMBLYMAN KOPPELL: Mr. Chew was here earlier today, and he said that the Port Authority had actually signed up a key prospect of his. The Port Authority had signed up this firm, and now this firm is no longer a possible customer for him. There were others here who

either said the Port Authority had done that, or were fearful that the Port Authority would do that. What do you say about that?

MR. PARTER: Well, I don't know the facts of his case, you know, whether this was an active client or what, and I think that is a question that obviously should be answered by the Port. In terms of theory and policy, I think that the Port, as they have told me time and time again -- and this is what we would recommend at the Commerce Department, and have recommended -- that the choosing of firms be directed toward those which are not in competition. We do not want that any more than the private sector does.

There is a tremendous number of firms out there which the export management companies do not want. Let me give you an example. For a number of years, we in the International Division had what we called "export matchmaking" seminars. We would have a seminar where we would introduce firms. We would ask firms to come which wanted to get into the export business, and we would invite export management companies which were looking for clients. We would then try to put them together. We had, I would say, about five of those over a period of three years, and there were many, many firms which came looking to get into export that found no management company that would take them on, nor was interested in them. It is that group of firms that the Port Authority must be looking to, to try to get them involved in export so that, in fact, they can then move on to Mr. Chew's type of firm or others.

SENATOR LIPMAN: Mr. Chew said that he had been after this firm for about ten years. His private company had been trying to capture this firm for ten years.

MR. PARTER: For ten years? Well, I think that speaks for itself.

ASSEMBLYMAN KOPPELL: There is no statement by the Port Authority that they would first try to find a private match, and then take the customer. I haven't heard that. Let me ask you this. The Port Authority runs port facilities, so there is going to be some interest, I would guess, in getting people who use port facilities, which has its good aspects. But, how would the Commerce Department feel about the following scenario, which I suggest may not be

completely foreign; it does take a computer area. Let's assume there is a small computer manufacturer in the State of New York which wants to get into exporting. The Port Authority makes a deal with the Commodore Computer Manufacturing Company. I think they are in Pennsylvania. Then, the export company takes on Commodore on an exclusive basis to distribute their products in Europe. And, there is a local New York company which comes to the Commerce Department and says, "Hey, wait a minute, we're manufacturing right here in New York, and the Port Authority has entered into an exclusive arrangement with a Pennsylvania manufacturer, presumably because that Pennsylvania manufacturer said they would use the Port of New York." Maybe they said that, or maybe they didn't even say that, but let's presume they said that. What would you think about that?

MR. PARTER: This gets back to the question you asked earlier, which is criteria. We believe the criteria are important, and one of the criteria we have recommended, and said should be followed, is that the Port's companies should be limited to New York and New Jersey firms.

ASSEMBLYMAN KOPPELL: Now, that is not in the legislation, is it?

MR. PARTER: No.

ASSEMBLYMAN KOPPELL: But, your testimony did not specifically address itself to that. Should the criteria be in the legislation?

MR. PARTER: I believe that putting in all the criteria you are going to have to have, and it is going to have to vary as business progresses, would probably cause more trouble than it would solve. I think the Port Authority running an organization that they think is there to promote the economic well-being of the port district in the States of New York and New Jersey, would choose criteria that they had stated publicly are those they are interested in, and those are, that they not be competitive, that they be New York and New Jersey firms, and I am sure there is a list of others as well.

ASSEMBLYMAN KOPPELL: But, those criteria are not in the legislation?

MR. PARTER: I question whether they need to be. I have not reached a decision one way or another on whether they have to be in the legislation.

SENATOR LIPMAN: I am just sitting here enjoying how optimistic you are about the success of this.

MR. PARTER: I would like to respond to that. I have been involved now for three years in the promotion and stimulation of exports by New York manufacturers and service sectors. I think the fact that I am still optimistic after three years of trying to promote exports says something about the fact that progress can be made. We are very proud of the programs we have developed over these past three years, and we think we are doing a great deal to get more and more firms involved in exporting. But, I would be kidding myself if I didn't say that there is a tremendous amount left undone. And, when I mention all of the organizations in the New York/New Jersey area that are involved, I would venture to guess that they think the same as I do, that everybody is doing his part. This is not going to be the answer to export success, or export awareness. It is the Port's part in getting more people aware of the value, getting more people aware of how to get in.

One of the great problems that we as a state agency have, is that most of our programs can bring the horse to the water, but we can't get him to drink. We educate; we give them the tools to export; we bring sales leads to them; we make people abroad aware of products made in New York; and, we can bring all of that to the New York manufacturers' doorsteps. But, to get them to actually get out there to finance the deals, and close the deals and collect on them, we do not have the manpower nor the resources to do that.

What the Port Authority is doing in this particular instance, is taking a small universe of firms and actually getting that thing done. We think that if that can be done, in a way it will have a spillover effect and help companies both in New York and New Jersey.

SENATOR LIPMAN: And, you don't think that they would overwhelm and replace the private companies?

MR. PARTER: It has to be structured in such a way that they do not. Certainly, we do not want them to do that. It is my

understanding from what I have been told by them, that they are not planning to, nor are they doing that at this particular time.

ASSEMBLYMAN KOPPELL: Is the Commerce Department contemplating proposing the establishment of a state Eximbank, or something of that sort?

MR. PARTER: The Commerce Department is involved in state export financing assistance for the State of New York. What form that will take at this particular time, we are not certain. One form that has been suggested is a state export bank; another form is a revolving fund with working capital given to firms which want to get involved. There are some other forms as well. We are currently working on that, and I would expect that in the next session of the Legislature there will be legislation to that effect.

ASSEMBLYMAN KOPPELL: Have you contemplated, maybe instead of this export trading company, the Port Authority perhaps financing some sort of export bank?

MR. PARTER: In the original plans that were done by the consultant, that was one of the options -- I mean one of the sources when I say one of the options. We look to sources for the financing of the state export bank. One was what we called "international trade bonds;" another one was the money center banks; another one was authorizing the money from the Legislature; and, another one was going to the Port for money.

ASSEMBLYMAN KOPPELL: Okay, thank you very much.

MR. PARTER: Thank you.

ASSEMBLYMAN KOPPELL: I believe Mr. Ouida wanted to make a few comments, and we agreed to that.

MR. OUIDA: First of all, I want to thank you on behalf of the Port Authority for the time you have devoted to this very important matter. I think your questions indicated the seriousness with which you take this responsibility and, also, the seriousness with which we should take responsibility in requesting this authorization.

I do want to make just two or three very brief comments. One, the bill does have a restriction in it with respect to our activities that has not been mentioned, and that is, all of the activities that we will be involved in must be shipped through the Port

of New York. That is specifically in the bill. Secondly, there was a statement made that the Port Authority would not be able to help firms in Camden, or help firms in Buffalo -- outside the port district. That is not true. We work with firms today outside the port district, as long as they ship through the Port of New York; that is in the bill.

I think the Assemblyman from New York, Mr. Koppell, has really raised the crux of the issue on which I think you should guide your deliberations on the matter. The question is, is this necessary? Are the services out there adequate? That is the exact same question that the United States Congress answered when it said that the existing network is inadequate, that it does not do the job. That is why Adlai Stevenson sponsored this bill; that is why President Reagan signed the bill.

That doesn't mean that export management companies are to be denigrated in any way. They perform a very valuable service. I think you heard your two Commerce Department officials, one from New York and one from New Jersey, telling you the same thing, and this is from your Executive Branches. These are the people who have no ax to grind here. They have no reason to say one way or the other. They are telling you the services are inadequate, and that there is a need for a real infusion here. We agree with them.

Finally, I would like to invite the Senator from New Jersey and the Assemblyman from New York to our trading company, to see what we are doing. We do not think that this should be acted upon in the blind. We want you to see the profiles of the companies that we work with. We would even take you to see some of the firms we work with, because the one thing that is missing today are the manufacturers, and you need to hear from them. I hope you will find the time -- and I will be more than happy to arrange this -- to visit and to speak to the people who we are trying to help.

ASSEMBLYMAN KOPPELL: I don't know if I will have the time, but I will try. However, right now I will publicly state that my staff, especially Rita who has worked on this, will take the time. What I would like you to do also, is provide us with a list of every company you have a marketing arrangement with.

MR. OUIDA: I will do more than that. I will send this to Senator Lipman from New Jersey as well. What we have done is an analysis of the firms by size, by sales, and I'll tell you the truth, after three years, if we hit the bell in this area, we will create 500 jobs. That is how difficult it is. It is not a bonanza. What you just heard from Alan Parter is the truth. Rome is burning outside, and we are fiddling here. That is the way I feel as I am listening to all this. Believe me, there is a great need here for these companies, and it is not being filled. I think you should use this capital engine to play a very critical role for our region. Thank you very much.

SENATOR LIPMAN: Mr. Ouida, there is no need for Rome to burn while you are presently in operation. You can expand as you are.

MR. OUIDA: The one critical thing that I don't do -- this is my final point, and I'm glad you said that -- is combine the marketing with the financing. That is the key area. In our country, we have always separated the two. The reason Congress passed that bill and put the banks into the business was to say, "The only reason you can become competitive financially is if you combine financing and marketing." When we put together a deal, and we finance it when you authorize it, what will our interest rates be? They will not be a blind investment. We know the buyer; we found him. We put the deal together; it is back to back. That will enable our manufacturers to have access to competitive financing.

If you continue to separate the financing from the marketing, you will have what this country continues to have, a great deficit. When you talk about the Japanese trading companies, when you talk about the Brazilian trading companies, when you talk about any trading company in the world, that is the secret ingredient that is missing right here.

ASSEMBLYMAN KOPPELL: Have you explored an arrangement right now with your present Export Division, where you would arrange financing?

MR. OUIDA: We have gone to the banks when we had a good deal, all right? We have gone to the banks and said, "Look, we stand behind this, and we also have this insurance policy. We are hopeful of getting competitive financing." But, the banks have said to us over

and over again, "Look, we want you to share in the risk, if you are so confident of this." If we say, "Well, we are not authorized," that is not an answer in this field. I think what we are asking you to do, is to allow us to put our money where our mouth is, to the benefit of these companies.

Wally Frank told me to be low key, but I don't know if I am low key. He said, "Keep your blood pressure down and be low key." I'm trying, but I feel very strongly about this.

ASSEMBLYMAN KOPPELL: Let me ask you this. Why do you have to enter into these exclusive arrangements? Maybe I asked you this before, but it is beyond me why you have to enter into exclusive arrangements.

MR. OUIDA: If I am representing you for the sale of wine -- let's take wine. That is a big product in New York, since we have a wine company in New York. When we take that company in and they give us an exclusive to represent them, if we take another company in, it just won't work. First of all, they are not going--

ASSEMBLYMAN KOPPELL: (interrupting) So, if you took an exclusive it wouldn't work to take another company, because you would be violating your agreement.

MR. OUIDA: What I am saying is, they would not allow us to represent them if we had a competitor we were representing. What Alan said to you was critical. He said the states have always tried to do everything, except to close a deal. Remember, we are closing the deal. We are implementing the sales. To actually implement sales, you have to make a decision. You can't be all things to all people. You are going to have to do this on a nondiscriminatory basis, of course, but you cannot represent -- when you close the sale -- competing manufacturers, because neither manufacturer is going to be happy with you.

ASSEMBLYMAN KOPPELL: Why don't you work with people like Mr. Chew and the other people we saw here today, and let them close the deal, and you provide the facilities?

MR. OUIDA: We have not been able, with the existing EMC's, to find that they will combine financing and marketing in a way that makes sense. It is the same reason with a bank. When we have a good

deal, if you are saying for us to go to Mr. Chew or to any EMC for them to finance it, they are not going to be interested in financing it alone. The thing that makes business in the exporting business -- the reason you can live in this business, is not because you are just living on the financing part of it, it is because you are also taking a piece of the sale itself. And, it is in that combination that there is success. It is a very difficult business. You know, these EMC's have been around, and there are twenty pages of them, and yet New York and New Jersey have lost their competitive share in the international arena. Why, despite twenty pages? Because it is a very difficult business. You need something fresh; you need a new infusion. That is what Congress was saying. We think that the two states should seize the opportunity created by that Federal legislation.

By the way, in Portland the EMC's were against it. Mr. Chew said the export management companies were against it in Portland. Now, one final thing. The export management companies were against the Federal bill.

ASSEMBLYMAN KOPPELL: Well, we just heard testimony that they were for it.

MR. OUIDA: This we can document. They were opposed; NEXCO opposed that bill. As a matter of fact, there were congressional findings -- and we can submit those findings to you -- that the EMC's, because they were undercapitalized, and because they were small, and because they were targeted, were not able to do the job that needs to be done for this country. That was an explicit finding in the congressional debates.

ASSEMBLYMAN KOPPELL: Well, you know, interestingly enough, if I think about Japanese models, for instance, of export trading companies, a lot of them represent very big companies, not very little companies. The models are not of big export trading companies representing little manufacturing firms. If I think of the Japanese trading companies, they represent very large firms.

MR. OUIDA: The Japanese trading companies, I should tell you, are responsible for 10% of the United States' exports -- Mitsubishi and Mitsui. That is an incredible fact that you should know. Why? They do as much business exporting as all the EMC's in

this country, these two Japanese trading companies. Okay? That is a fact of life, and they do represent small companies.

Mr. Chew said that I am trying to save my overhead. I am not trying to save my overhead. What I am trying to do is make those companies competitive, and they cannot be competitive unless you get them economies of scale by lumping them together, by arranging shipping for them together, by doing the insurance, and by master policies for financing. These companies will never compete, except through a trading company. These are the guys who benefit, not the Port Authority. When I talk about economies of scale, it is not for the Port Authority, it is for those little companies we are trying to represent.

As far as C-B Foods is concerned, and stealing an account, I really take umbrage at that. We have never stolen an account from anyone. We have never been secretive about what we do. I hardly think that this is secretive, having a public hearing to disseminate what we are trying to do. We are not trying to do this by the back door. We are a public agency; we have a public responsibility.

ASSEMBLYMAN KOPPELL: What about C-B Foods? Was Mr. Chew competing for the account?

MR. OUIDA: If Mr. Chew tried for ten years to get that account and he didn't, I submit to you that he would never get that account. We got that account for one reason. They were unable to penetrate the Caribbean area. They came to our marketing group, and we are very proud of our marketing group, and they said to us, "Will you work for us in that area alone?" The only reason we took that large company on in that area, was because you can sell food in the Caribbean, all American food products, because that is where the tourist trade is, and the diet there is very similar to what New York and New Jersey produce. That company allowed us economies of scale for our smaller companies. We never stole that company from Mr. Chew; he never had that company.

ASSEMBLYMAN KOPPELL: Does that company manufacture in New York?

MR. OUIDA: Yes, it is one of the largest food producers in New York. You know, I'll tell you, I am very hesitant to keep

mentioning one company, because the one thing these companies don't want -- remember, they are private sector people -- the last thing they want to hear is, "I'm the government, I'm here to help." They do not want to get involved in political forums. They are just looking to the Port Authority to help them, without getting involved in the bureaucratic struggle, or the political struggle. I hope they are not going to be lambasted with requests and inquiries, because they are only going to shy away from them.

ASSEMBLYMAN KOPPELL: Why couldn't they get into the Caribbean market?

MR. OUIDA: Why?

ASSEMBLYMAN KOPPELL: Yes.

MR. OUIDA: They tried a variety of strategies; that is all I can tell you. They tried export management companies. They have their own Exporting Division, which does their marketing in Europe.

ASSEMBLYMAN KOPPELL: So, what did you do for them?

MR. OUIDA: Well, we had-- Let me tell you about one special thing we had, that we haven't mentioned.

ASSEMBLYMAN KOPPELL: First of all, let me ask you, what is the deal you made with them?

MR. OUIDA: What is the deal?

ASSEMBLYMAN KOPPELL: Yes.

MR. OUIDA: The deal is that we get a commission on sales -- we get a commission only if there is a sale.

ASSEMBLYMAN KOPPELL: Okay. Now, when did you take them on?

MR. OUIDA: About a year ago.

ASSEMBLYMAN KOPPELL: And, what have you done for them so far?

MR. OUIDA: We have sold about two or three container loads for them.

ASSEMBLYMAN KOPPELL: Sold food, canned food or what?

MR. OUIDA: That's right, from the State of New York.

ASSEMBLYMAN KOPPELL: And, you sold them where?

MR. OUIDA: Do you want to know the buyers?

ASSEMBLYMAN KOPPELL: No, no, just where?

MR. OUIDA: In the Caribbean.

ASSEMBLYMAN KOPPELL: Did you provide them with financing?

MR. OUIDA: No.

ASSEMBLYMAN KOPPELL: You couldn't do that?

MR. OUIDA: No, we couldn't.

ASSEMBLYMAN KOPPELL: So, what exactly did you do?

MR. OUIDA: Why we were good -- let me tell you. For ten years -- the one thing that no one said here, that no one knows -- for ten years, the Port Authority has had a program in place that was sponsored by the United States Department of State. It is called the AID Program. We work with developing countries all over the world, and the Caribbean is one of the areas where we have been really helping these developing countries to import into the United States.

ASSEMBLYMAN KOPPELL: Wait a minute, let's not divert. You got C-B Foods some orders in the Caribbean?

MR. OUIDA: That's right.

ASSEMBLYMAN KOPPELL: Why did you have to enter into an exclusive with them? Why couldn't you have gotten them orders, and maybe gotten XYZ Foods some orders too?

MR. OUIDA: Neither C-B Foods, nor any other food company, would sign an arrangement for you to represent them if you represented a competitor. That is a fact of life.

ASSEMBLYMAN KOPPELL: Well, I don't think that is true, frankly. I mean, I see auto dealers all the time who represent different auto companies. That is just not true.

MR. OUIDA: I can just tell you that a couple of things that the EMC's here today said are very true. I mean, these gentlemen were actually honest and very straightforward. I may disagree with them about their position with respect to us, because I do not think we are competing with them. But, the one thing they did say to you, was that they do not take competing lines. Each of them said that to you. Secondly, they told you that what governments do overseas for their exporters, the United States has never done. Both of those statements are true. It is about time this country started to help our exporters in the same way that other countries help their exporters. That is what we are all about; that is what this Federal act is all about.

SENATOR LIPMAN: I am not quite able to exactly place where you belong. That is what we are trying to do. At one point you seemed

like a public entity, there to encourage small businesses, marketing and facilitating, and helping them along. Then, on the other hand, you suddenly, having done this, became a corporate giant out there. Having acquired these companies then, you are now going to put the medium-sized ones already there out of business. So, it is just difficult to place what you really are.

MR. OUIDA: Senator, let me answer that question the best way I can. You have heard today from a very small segment of the exporting industry. You heard from the export management companies, and I could have predicted what they were going to say. You could have brought a hundred of them in here. They did not want the banks involved in this. They opposed the Federal legislation; they oppose this legislation.

When you look at the exporting industry, consider the manufacturers, consider the people in transportation, consider the whole--

ASSEMBLYMAN KOPPELL: (interrupting) Yes, but the New Jersey Commerce Department, which represents the manufacturers, came in here and opposed the bill, so let's not be--

MR. OUIDA: (interrupting) You know, it is very interesting that they opposed it, because when I saw the gentleman I said to him, "You know, you were wrong. We do represent firms throughout the State of New Jersey." He said, "Maybe I should stay to explain that." So, they were wrong about that point. They want us to do more. They want us to represent a firm in Camden; we already do that.

ASSEMBLYMAN KOPPELL: That was part of the problem; that was not the entire problem. If you read his testimony, you will see.

MR. OUIDA: Do you want to do a canvass of the manufacturers? Do you want to find out if they are satisfied with the existing services? You are going to repeat what Congress did.

ASSEMBLYMAN KOPPELL: I would welcome hearing from them, and if you want to stimulate it, I won't criticize you for stimulating it. I would welcome hearing from them.

MR. OUIDA: I would prefer to do it, Assemblyman Koppell, in this way. I would be happy to give a member of your staff the names -- we are not hiding anything -- the companies we represent, the sizes,

the sales, but I think you can understand that this is a sensitive area, and we do not want these companies, who are already afraid of working with the government, to be told all of a sudden, "Oh, there is going to be a hearing, and you are going to be the center of attraction." They are not interested in this. These are business people, just trying to make sales to make a living.

ASSEMBLYMAN KOPPELL: No, but if they think that what they are getting is very important, they ought to be willing to support it.

MR. OUIDA: I think the fact that they signed with us and gave us exclusivity is their statement.

ASSEMBLYMAN KOPPELL: I am less concerned about those folks than the ones that didn't get in.

MR. OUIDA: Well, you know, I want to go back to that. No company that ever comes to us, even the other companies-- We still run our trade missions, we still run our education, we still provide information, and we are going to continue to do these things. But, there are 2,500 firms in the two states which need help. We have seventy of them.

ASSEMBLYMAN KOPPELL: That is the problem.

MR. OUIDA: If we had 2,500, then the EMC's would really be in trouble. There is a lot for them to do. There is a lot for us to do. What Charlie Lord said, by the way, the guy from Eximbank, when he was down at a hearing in New York -- what he said was that the best way to do export financing is through public trading companies, and that was his testimony -- that is the United States Eximbank -- using the Port Authority as a kind of example, to combine marketing and sales.

I think that what Alan Parter said with respect to the criteria-- You may find that because you want to make a statement about the history of this agency, or the way you feel about this agency, you are going to restrict us in many ways. That is your judgment. I just hope that whatever you do to the legislation, you realize the nature of what we are entering into, and see that if we succeed, what that means is not the Port Authority succeeding, it means that this region will succeed with jobs and with commerce. I only hope that Governor Cuomo and Governor Kean will someday come to us and say, "Herb, stop, there is too much exporting going on from our

region." I mean, there is such a large problem here, and we are going to play, even with the arsenal that you give us, a very small role in attacking the problem.

ASSEMBLYMAN KOPPELL: I don't want you to play a small role; I want you to play a large role, but I am very much concerned about the nature of the role you're playing -- the nature of a private entity. I think there probably is a role for cheap financing. Everybody has testified to that, the export management companies. I know that for a fact. If you were a financer who would do loans on a nondiscriminatory basis, that would be fine. I think there is a role for marketing. I happen to disagree with you about this exclusive business. We are talking about building a merchandise mart in the City of New York. You may be aware of that.

MR. OUIDA: Sure.

ASSEMBLYMAN KOPPELL: A merchandise mart is an opportunity to market a whole range of products by a whole range of different manufacturers in one central location, so that the buyers can come in and see a variety of things. A trade show does that. You can facilitate marketing without exclusive dealing arrangements. I will tell you, quite frankly, if I were a medical equipment manufacturer, in the example I have been using today, and I found that my competitor was being subsidized by favorable financing and exclusive marketing by the Port Authority, I'll tell you what I would do, and I'm not kidding. I would move to another part of the country. I would say, "The heck with this, my competitor is being helped by a quasi-public entity, and I don't have entry to it because some bureaucrat down at the World Trade Center made a decision to support that New Jersey firm rather than my New York firm." It's ridiculous.

MR. OUIDA: If you want to put into the legislation that the companies will be selected on a nondiscriminatory basis, you know, you can't satisfy the whole world.

SENATOR LIPMAN: He is not saying the same thing.

MR. OUIDA: If you say to us, "Herb, you have to take every single company," there are only two ways I can do that. I can do that by taking title myself. Then I buy and sell from whomever I please. I do not have any exclusivity. The way I am now, I can't finance. If

I could buy the goods in my own name, then I would buy from the best source, and I would buy from anyone who is the best supplier, Assemblyman. So, if you really want to end what you think is not a good situation, then you pass this bill, because this bill will allow us--

ASSEMBLYMAN KOPPELL: I do not want you to be in a private business. I am not a Socialist, quite frankly, and I don't want you to be in a private business. I think it is entirely inappropriate. It is an inappropriate activity for government, except perhaps for a temporary period. That is my view, but I don't think we should get into a debate. I really thank you very much.

MR. OUIDA: Thank you very much, and thank you for your attention.

SENATOR LIPMAN: Thank you, Mr. Ouida.

ASSEMBLYMAN KOPPELL: Is there anyone else who wishes to testify? (no response)

SENATOR LIPMAN: All right, thank you all for coming.

(HEARING CONCLUDED)

SENATE, No. 1779

STATE OF NEW JERSEY

INTRODUCED SEPTEMBER 23, 1982

By Senators ORECHIO, DiFRANCESCO, BORNHEIMER, McMANIMON, CAUFIELD, LIPMAN, FELDMAN, LA ROCCA, O'CONNOR, RODGERS, WEISS, LYNCH, CODEY, STOCKMAN, KENNEDY and GRAVES

Referred to Committee on State Government, Federal and Interstate Relations and Veterans Affairs

AN ACT authorizing the Port Authority of New York and New Jersey through the use of export trading projects to encourage and facilitate commerce in and through the Port of New York District and supplementing Title 32 of the Revised Statutes.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

1. The Legislature finds and determines that:

a. To promote, preserve and protect trade and commerce in and through the Port of New York District as defined in the compact between the two states dated April 30, 1921 (hereinafter called the port district), it is the policy of each of the two states actively to promote, attract, encourage and develop economically sound commerce and industry through governmental action;

b. In order to preserve and protect the position of the Port of New York as the nation's leading gateway for world commerce, it is incumbent on the States of New York and New Jersey to make every effort to assure that an appropriate share of the interstate and international commerce generated by the manufacturing and industrial segments of the economy of the nation and of the port district move through the port;

c. There are many firms, especially small and medium-sized, in the two states that have significant, but underutilized, export potential which, if tapped, would enhance the economic well-being

of the two states and the port district, particularly through the creation and retention of jobs;

d. In order to continue to promote, preserve and protect trade and commerce in and through the port district, it is important to create and promote export and import trading opportunities by the effectuation of export trading projects which encourage and facilitate commerce in and through the port district by the furnishing of services related to the development of foreign markets for the trading of United States goods and services, including through the purchase, sale, and financing of goods and services and the holding of goods in inventory;

e. Stimulating exporting and importing opportunities through export trading projects is in the public interest and involves the exercise of public and essential governmental functions which may include appropriate and reasonable limitations on competition and which should be performed by the two states, or any municipality, public authority, agency or commission of either state and by a joint agency of the two states to accomplish the purposes of this act;

f. The Port Authority of New York and New Jersey (hereinafter called the port authority), which was created by agreement of the two states as their joint agency for the development of terminal, transportation and other facilities of commerce and for the promotion and protection of the commerce of the port has heretofore, for the purpose above described of creating and retaining jobs, been specifically authorized to effectuate industrial development projects and engage in related economic development of the port district;

g. The port authority, therefore, is a proper agency to act on behalf of the two states (either directly or by any subsidiary corporation) to plan, finance and otherwise effectuate export trading projects and is so authorized to accomplish such actions on behalf of the two states; and

h. The undertaking of such export trading projects by the port authority has the single object of and is part of a unified plan to aid in preserving and enhancing the economic well-being of the port district and is found and determined to be in the public interest.

2. As used in this act:

a. "Bonds" means bonds, notes, securities or other obligations or evidences of indebtedness;

b. "Effectuation" of any export trading project or part of any such project includes but is not limited to the furnishing, estab-

lishment, acquisition, organzation, development, and operation thereof and the provision of funds therefor through the issuance of obligations, the making of loans or otherwise;

c. "Export trading project" or "project" means one or more services principally related to the purpose of exporting and importing goods and services through the port district which services may include but are not limited to international market research, advertising, marketing, including the purchasing, selling, financing and holding of inventory, insurance, legal assistance, transportation, trade documentation, freight forwarding, communication, warehousing, foreign exchange and financial services and any other services and real property or property other than real property related to any services considered appropriate by the port authority for the facilitation and encouragement of such purpose;

d. "General reserve fund statutes" means chapter 48 of the laws of New York of 1931 as amended, and chapter 5 of the laws of New Jersey of 1931 as amended, and "general reserve fund" means the general reserve fund of the port authority authorized by those statutes;

e. "Municipality" means a city, county, town or village all or any part of which is located within the New York portion of the port district, or a city, county, town, borough or township all or any part of which is located within the New Jersey portion of the port district;

f. "Person" means any person, including individuals, firms, partnerships, associations, societies, trusts, public utilities, public or private corporations, or other legal entities, including public or governmental bodies, as well as natural persons;

g. "Port authority" includes the Port Authority of New York and New Jersey and any subsidiary corporation now or hereafter incorporated for any of the purposes of this act; but as used in sections 4 and 5 of this act, it shall not include any such subsidiary corporation;

h. "Purposes of this act" mean the effectuation of one or more export trading projects and of each part of such projects, and purposes incidental thereto;

i. "Real property" means lands, structures, franchises and interest in land, including air space and air rights, waters, lands under water, wetlands and riparian rights, and any and all things and rights included within that term, and includes not only fees simple absolute but also any lesser interests, including but not limited to easements, rights-of-ways, uses, leases, licenses, permits

and all other incorporeal hereditaments and every estate, interest or right, legal or equitable, including terms of years and liens thereon by way of judgments, mortgages or otherwise;

j. "Surplus revenues" from any export trading project mean the balance of the revenues from the project (including but not limited to the revenues of any subsidiary corporation incorporated for any of the purposes of this act) remaining at any time currently in the hands of the port authority after the deduction of the current expenses of the operation and administration thereof, including a proportion of the general expenses of the port authority as it deems properly chargeable thereto, which general expenses shall include but not be limited to the expense of protecting and promoting the commerce of the port district, and after the deduction of any amounts which the port authority may or shall be obligated or may or shall have obligated itself to pay to or set aside out of the current revenues therefrom for the benefit of the holders of any bonds legal for investment as defined in the general reserve fund statutes;

k. "Surplus revenues of export trading projects" mean the surplus revenues of those projects effectuated pursuant to the terms of this act.

3. In furtherance of the aforesaid findings and determinations, in partial effectuation of and supplemental to the comprehensive plan heretofore adopted by the two states for the development of the port district, the port authority is authorized and empowered to establish, acquire, effectuate, develop, own, furnish, organize, participate in, operate, sell and transfer export trading projects.

The port authority is authorized and empowered to establish, levy and collect rentals, fares, fees, commissions and other charges which it deems necessary, proper or desirable in connection with any export trading project and to issue bonds for any of the purposes of this act and to provide for payment thereof, with interest thereon, and for the amortization and retirement of those bonds, and to secure all or any portion of those bonds by a pledge of the rentals, fares, fees, commissions, charges and other revenues or any part thereof (including but not limited to the revenues of any subsidiary corporation incorporated for any of the purposes of this act) and to secure all or any portion of the bonds by mortgages upon any property held or to be held by the port authority for any of the purposes of this act, and for any of the purposes of this act to exercise all appropriate powers heretofore or hereafter delegated to it by the states of New York and New Jersey, including, but not limited to, those expressly set forth in

this act. The port authority is authorized and empowered to apply directly for and to accept any financial or other assistance from any person, including the Federal Government, in connection with any of the purposes of this act. The surplus revenues of export trading projects may be pledged in whole or in part as hereinafter provided.

4. The moneys in the general reserve fund may be pledged in whole or in part by the port authority as security for or applied by it to the repayment with interest of any moneys which it may raise upon bonds issued or incurred by it from time to time for any of the purposes of this act or upon bonds secured in whole or in part by the pledge of the revenues from any export trading project or any portion thereof or upon bonds both so issued or incurred and so secured; and the moneys in the general reserve fund may be applied by the port authority to the fulfillment of any other undertaking which it may assume to or for the benefit of the holders of any such bonds.

Subject to prior liens and pledges (and to the obligation of the port authority to apply revenues to the maintenance of its general reserve fund in the amount prescribed by the general reserve fund statutes), the revenues from facilities established, constructed, acquired or otherwise effectuated through the issuance or sale of bonds of the port authority secured in whole or in part by a pledge of its general reserve fund or any portion thereof may be pledged in whole or in part as security for or applied by it to any of the purposes of this act, including the repayment with interest of any moneys which it may raise upon bonds issued or incurred from time to time for any of the purposes of this act or upon bonds secured in whole or in part by the pledge of the revenues of the port authority from any export trading project or any portion thereof or upon bonds both so issued or incurred and so secured; and those revenues may be applied by the port authority to the fulfillment of any other undertakings which it may assume to or for the benefit of the holders of those bonds.

5. If the port authority has raised or shall hereafter raise moneys for any of the purposes of this act by the issue and sale of bonds which are secured in whole or in part by a pledge of the general reserve fund or any portion thereof, the surplus revenues from export trading projects financed in whole or in part out of the proceeds of such bonds and the surplus revenues from any other port authority facility the surplus revenues of which at such time may be payable into the general reserve fund shall be pooled and applied by the port authority to the establishment and maintenance

of the general reserve fund in an amount equal to one-tenth of the par value of all bonds legal for investment, as defined in the general reserve fund statutes, issued by the port authority and currently outstanding, including such bonds issued for any of the purposes of this act; and all such moneys in the general reserve fund may be pledged and applied in the manner provided in the general reserve fund statutes.

If the balance of moneys theretofore paid into the general reserve fund and not applied therefrom shall exceed an amount equal to one-tenth of the par value of all bonds upon the principal amount of which the amount of the general reserve fund is calculated, by reason of the retirement of bonds issued or incurred from time to time for any of the purposes of this act the par value of which had theretofore been included in the computation of said amount of the general reserve fund, then the port authority may pledge or apply such excess for and only for the purposes for which it is authorized by the general reserve fund statutes to pledge the moneys in the general reserve fund and such pledge may be be made in advance of the time when such excess may occur.

6. The two states covenant and agree with each other and with the holders of any bonds issued by the port authority for the purposes of this act, that so long as any of such bonds remain outstanding and unpaid and the holders thereof shall not have given their consent as provided in their contract with the port authority, the two states will not diminish or impair the power of the port authority to establish, levy and collect rentals, fares, fees, commissions or other charges in connection with export trading projects or any other facility owned or operated by the port authority the revenues of which have been or shall be pledged in whole or in part as security for such bonds (directly or indirectly, or through the medium of the general reserve fund or otherwise), or to determine the quantity, quality, frequency or nature of any services provided by the port authority in connection with the operation of each project or facility.

7. The port authority is authorized and empowered to cooperate with any one or more persons for and in connection with any of the purposes of this act, and to enter into an agreement or agreements (and from time to time to enter into agreements amending or supplementing the same) with any one or more persons, for or relating to such purposes. Nothing contained in this act shall be construed to limit or impair the power of the Governor of the State of New York and the Governor of the State of New Jersey to review the actions of the commissioners of the port authority as

provided for in chapter 700 of the laws of New York of 1927 as amended, and in chapter 333 of the laws of New Jersey of 1927 (R. S. 32:2-6 et seq.), as amended. The port authority is authorized and empowered to enter into agreements (and from time to time to enter into agreements amending or supplementing the same) with any one or more persons to provide for the effectuation of any of the purposes of this act through a subsidiary corporation owned jointly by the port authority and any one or more such persons, and any such person is authorized and empowered to enter into such agreements with the port authority.

8. Notwithstanding any contrary provision of law, general, special or local, any person is authorized and empowered to cooperate with the port authority and to enter into agreements (and from time to time to enter into agreements amending or supplementing the same) with the port authority or with any one or more persons for and in connection with or relating to the purposes of this act. In connection with any of the purposes of this act, the port authority and any one or more persons are empowered to enter into any other agreements (and from time to time to enter into agreements amending or supplementing same) which may provide, among other things, for the establishment of prices or rates, a requirement that any person sell, lease or purchase any commodity or service to or from either state, or any agency, department, commission, public authority, board or division thereof or the port authority, or any other similar arrangement.

Any agreement with or other instrument from a municipality pursuant to this act shall be consented to by the municipality and the terms, conditions and execution by a municipality of any such agreement or instrument shall be authorized in the manner provided in article twenty-two of the compact of April 30, 1921 (R. S. 32:1-23) between the two states creating the port authority, except that as to such agreements with or instruments from towns in the State of New York, such consent shall be authorized in the manner provided in the town law and as to such agreements with or instruments from municipalities or counties in the State of New Jersey, such consent shall be authorized in the manner provided in Title 40 of the Revised Statutes. Any consent by either state to any agreement with or instrument from such state pursuant to this act shall be effective if given, and the terms and conditions and execution of any such agreement or instrument shall be effective if authorized by the governor of such state. Any consent by a public authority, agency or commission to any agreement with or instrument from such entity pursuant to this act shall be effective if given by such public authority, agency or commission.

9. The effectuation of any export trading project or any part thereof is and will be in all respects for the benefit of the people of the States of New York and New Jersey, for the increase of their commerce and prosperity and for the improvement of their health and living conditions; and the port authority and any subsidiary corporation incorporated for any of the purposes of this act shall be regarded as performing an essential governmental function in undertaking the effectuation thereof, and in carrying out the provisions of law relating thereto.

10. The port authority shall be required to pay no taxes or assessments upon any of the property acquired and used by it for any of the purposes of this act or upon any deed, mortgage or other instrument affecting such property or upon the recording of any such instrument. However, to the end that no taxing jurisdiction shall suffer undue loss of taxes and assessments by reason of the acquisition and ownership of property by the port authority for any of the purposes of this act, the port authority is authorized and empowered, in its discretion, to enter into voluntary agreements with any municipality whereby the port authority will undertake to pay in lieu of taxes a fair and reasonable sum, if any, or sums annually in connection with any real property acquired and owned by the port authority for any of the purposes of this act. Such sums in connection with any real property acquired and owned by the port authority for any of the purposes of this act shall not be more than the sum last paid as taxes upon that real property prior to the time of its acquisition by the port authority. Each municipality is authorized and empowered to enter into such agreements with the port authority and to accept the payments which the port authority is authorized and empowered to make and the sums so received by such municipality shall be devoted to purposes to which taxes may be applied in all affected taxing jurisdictions according to the law of the state in which the municipality is located.

11. Except as otherwise specifically provided, all details of the effectuation of export trading projects by the port authority shall be within its sole discretion and its decision in connection with matters concerning export trading projects shall be controlling and conclusive.

If any portion of any export trading project is owned, controlled, participated in or operated by the port authority, no public authority, agency, commission or municipality of either or both of the two states shall have jurisdiction over such project nor shall any such public authority, agency, commission or municipality have

any jurisdiction over the terms or method of effectuation of all or any portion thereof by the port authority.

Nothing in this act shall be deemed to prevent the port authority from effectuating, participating in, selling or transferring all or any portion of any export trading project through wholly owned subsidiary corporations of the port authority or subsidiary corporations owned by the port authority jointly with any person, or from transferring to or from any such corporations any moneys, real property or other property for any of the purposes of this act. If the port authority shall determine from time to time to form such a subsidiary corporation, it shall do so by executing and filing with the Secretary of State of the State of New York and the Secretary of State of the State of New Jersey a certificate of incorporation, which may be amended from time to time by similar filing, which shall set forth the name of the subsidiary corporation, its duration, the location of its principal office, any joint owners thereof, and the purposes of the incorporation which shall be one or more of the purposes of establishing, acquiring, owning, effectuating, developing, organizing, participating in, operating, furnishing, selling or transferring all or any portion of any export trading project. The directors of such subsidiary corporation shall be the same persons holding the offices of commissioners of the port authority together with persons representing any joint owner thereof as provided for in the agreement in connection with the incorporation thereof. Such subsidiary corporation shall have the powers vested in the port authority itself for the purposes of this act. Such subsidiary corporation and any of its property, functions and activities shall have the privileges, immunities, tax exemptions and other exemptions of the port authority and of the port authority's property, functions and activities. Such subsidiary corporation shall be subject to the restrictions and limitations to which the port authority may be subject, including, but not limited to the requirement that no action taken at any meeting of the board of directors of such subsidiary corporation shall have effect until the governors of the two states shall have an opportunity, in the same manner and within the same time as now or hereafter provided by law for approval or veto of actions taken at any meeting of the port authority itself, to approve or veto such action. Such subsidiary corporation shall be subject to suit in accordance with chapter 301 of the laws of New York of 1950 and chapter 204 of the laws of New Jersey of 1951 (C. 32:1–157 et seq.) as if such subsidiary corporation were the port authority itself. Such subsidiary corporation may be a participating employer under the New York retirement and social security law or any similar law of either state with

respect to one or more classes of employees of any such subsidiary corporation and the employees of any such subsidiary corporation except those who are also employees of the port authority, shall not be deemed employees of the port authority.

Whenever any state, municipality, commission, public authority, agency, officer, department, board, division or any other person is authorized and empowered for any of the purposes of this act to cooperate and enter into agreements with the port authority or to grant any consent to the port authority or to execute any document, such state, municipality, commission, public authority, agency, officer, department, board, division or any other person shall have the same authorization and power for any of such purposes to cooperate and enter into agreements with such subsidiary corporation and to grant consents to such subsidiary corporation and to execute documents for such subsidiary corporation.

12. The bonds issued by the port authority to provide funds for any of the purposes of this act are hereby made securities in which all state and municipal officers and bodies of both states, all trust companies and banks other than savings banks, all building and loan associations, savings and loan associations, investment companies and other persons carrying on a commercial banking business, all insurance companies, insurance associations and other persons carrying on an insurance business, and all administrators, executors, guardians, trustees and other fiduciaries, and all other persons whatsoever (other than savings banks), who are now or may hereafter be authorized by either state to invest in bonds of such state, may properly and legally invest any funds, including capital, belonging to them or within their control, and said bonds are hereby made securities which may properly and legally be deposited with and shall be received by any state or municipal officer or agency of either state for any purpose for which the deposit of bonds of such state is now or may hereafter be authorized. The bonds issued by the port authority to provide funds for any of the purposes of this act as security for which the general reserve fund shall have been pledged in whole or in part are hereby made securities in which all savings banks also may properly and legally invest any funds including capital, belonging to them or within their control.

13. Any declarations contained herein with respect to the governmental nature and public purpose of any export trading project and to the exemption of any export trading project property and instruments relating thereto from taxation and to the discretion of the port authority with respect to said projects shall not be

construed to imply that other port authority facilities, property and operations are not of a governmental nature or do not serve public purposes, or that they are subject to taxation, or that the determination of the port authority with respect thereto are not conclusive. The powers hereby vested in the port authority and in any subsidiary corporation incorporated for any of the purposes of this act shall be continuing powers and no exercise thereof by the port authority or a subsidiary corporation incorporated for any of the purposes of this act shall be deemed to exhaust those powers.

14. This section and the preceding sections hereof constitute an agreement between the states of New York and New Jersey supplementary to the compact between the two states dated April 30, 1921 and amendatory thereof, and shall be liberally construed to effectuate the purposes of said compact and of the comprehensive plan heretofore adopted by the two states, and the powers granted to the port authority shall be construed to be in aid of and not in limitation or in derogation of any other powers, heretofore conferred upon or granted to the port authority.

15. If any section, part, phrase, or provision of this act or the application thereof to the port authority, or any person or circumstances is adjudged invalid by any court of competent jurisdiction, so long as the act or remainder of the act shall nonetheless permit the effectuation, as a unified project, of any export trading project, such judgment shall be confined in its operation to the section, part, phrase, provision or application directly involved in the controversy in which such judgment has been rendered and shall not affect or impair the validity of the remainder of this act or the application thereof to the port authority, or any person or circumstances and the two states hereby declare that they would have entered into this act or the remainder thereof had the invalidity of such provision or application thereof been apparent.

16. This act shall take effect upon the enactment into law by the State of New York of legislation having an identical effect with this act, but if the State of New York has already enacted such legislation, this act shall take effect immediately.

STATEMENT

This bill authorizes the Port Authority of New York and New Jersey to establish, operate and participate in export trading projects to promote, preserve and protect trade and commerce in the port district.

The bill authorizes the port authority to form subsidiary corporations to carry out export trading projects.

NEXCO
NATIONAL ASSOCIATION OF EXPORT COMPANIES, INC.
200 Madison Avenue • New York, New York 10016 • (212) 561-2025

Ralph H. Chew
President
Ole H. Nielsen
1st Vice President
Alfred D. Furth
2nd Vice President

BOARD OF DIRECTORS
Gustav Danitz
Impex Corp
John Eastwood
Ad Ajriema Inc
Alfred D. Furth
Delpha Inc
John F. Karl
Peter A. Karl Inc
Harry Browne
Ferrex International
Lloyd Rosenblum
Hayes Isham & Co
Ralph H. Chew
A.E. Chew & Co. Inc
Paul Cherney
Cinetic International Corp
M. Fritz Schlenger
American Industrial Export Ltd
Inman Ellis
O.P.I.C.O.
Steven Dreyfus
Dreyco, Inc
Lawrence Hickey
American Steel Export Co
Manton Martin
Martin Bros. Tobacco Co
Ole H. Nielsen
Hockaman-Lewis Ltd
Arthur Singer
Singer Products Co

Gilbert M. Weinstein
Executive Director

Re: Port Authority of N.Y. and N.J.

and Export Finance

Summary

T E S T I M O N Y

and attachments

RALPH H. CHEW

Joint Hearing

September 27, 1983

NEW YORK STATE ASSEMBLY

COMMITTEE ON CORPORATIONS

NEW JERSEY SENATE

COMMITTEE ON GOVERNMENT, FEDERAL and INTERSTATE

MEADOWLANDS CENTER

LYNDHURST, NEW JERSEY

CHEW INTERNATIONAL GROUP
EXPORT MANAGEMENT SINCE 1915

I am Ralph H. Chew, President of the National Association of Export Companies (NEXCO), with 200 member companies nationwide. Our headquarters are at 200 Madison Avenue in New York City. Export companies are sales intermediaries, selling U.S. products in foreign markets. NEXCO is an elite organization in that comparatively few export trading companies (ETCs) meet the requirements for general membership, available only to firms having exclusive representation agreements with two or more U.S. manufacturers for one or more foreign markets. In the United States, export trading companies having such exclusive representation agreements are also called export management companies (EMCs).

While export management companies are marketing oriented, ours is a marketing effort which goes well beyond the marketing activities of domestic sales intermediaries. We provide our suppliers with the information necessary to adapt the domestic product to the requirements of foreign markets. (See #1 attached Journal of Commerce article.) We normally also take title to the goods we export while they are still in the United States, thus relieving our suppliers of the risks associated with exporting.

1907 • ONE WORLD TRADE CENTER • NEW YORK, N.Y. 10048 • U.S.A.
CABLE BONODO NEWYORK

Our export trading companies are usually product specialists, combining the noncompetitive products of various manufacturers into a product line which is more saleable than the sum of its parts. As a large number of products from many manufacturers will comprise an ETC's product line, the ETC can usually market products at a lower cost per product than can the typical manufacturer.

The Manhattan Yellow Pages lists 20 pages of export trading companies. New York City is our nation's most important headquarters center for United States export trading and management companies.

I am also the President of Chew International Group. The Chew International Group of export trading companies includes, A. E. Chew & Co., Inc., an export management company that has specialized in consumer food products for seventy years. Other specialized Chew Group export companies have the following product lines: institutional food products and equipment, industrial products, housewares, and in formation, a company which will specialize in food processing and packaging equipment.

While my export trading companies have their headquarters in New York City, One World Trade Center, suite 1907, New York, N. Y. 10048 and also at 101 Maiden Lane, like most NEXCO members they represent food processors and manufacturers throughout the United States.

I am also a native New Yorker, now residing in New York City. I would therefore feel honored if New York State legislators would consider me, as well as other New York State based NEXCO members, a resource, capable of answering questions you develop in your efforts to strengthen the exports of manufacturers and food processors throughout New York State.

We can also assist the State's Commerce Department with "matchmaking' conferences to put New York State manufacturers in touch with members of our association. After all, we NEXCO members earn our keep by marketing abroad the products of U.S. manufacturers.

We would now like to comment on the efforts of the Port Authority of New York and New Jersey to become a small business export trading company competing with tax paying private sector firms.

It has come to our attention that the Port Authority is requesting legislative authorization to take title to exportable products. Since the Port Authority is a public agency, it is subsidized by the taxpayers of New York State and New Jersey, including many private sector export firms. To the private sector, the prospect of a public agency using public resources to compete with private tax-paying businesses is, we believe and I trust that the representatives of our states'

public sector will agree, outrageous. (See #2 attached Journal article.) Contrary to its declarations, the Port Authority is also representing large companies of a type now also represented by the private sector. The Port won't limit itself to small firms, even with the public sector's financial resources. For example, I am personally aware of a large food processing company which would be a plum of an account for A. E. Chew & Co., Inc., currently being represented by the Port Authority. For a second specific example of Port Authority activities in competition with a New York State export company, please see the attached letter from NEXCO board member John Eastwood, President of Ad Auriema, especially third paragraph, last sentence.

NEXCO has members, ETC's primarily, in the Tri-State area and many in New Jersey. The New York and New Jersey area has many hundred privately held ETC's. Most of them regard the Port Authority as unfair competition.

###

Attachments

CHEW INTERNATIONAL GROUP
EXPORT MANAGEMENT SINCE 1915

US Flashlight Meets Safety Rules of EC

By FRANCINE C. BREVETTI
Journal of Commerce Staff

A U.S. manufacturer and its export management firm have developed the first safety light which complies with the European Community's performance standards for equipment being used near potential explosions.

A safety light is a flashlight designed for use in such volatile workplaces as oilfields, gasworks, oil tankers and sites of refueling aircraft.

Although the EC promulgated safety standards in 1978, no company has come forth with a conforming product until December 1982. That was when Bright Star Industries of Clifton, N.J., a producer of industrial flashlights and batteries, won certification for its two-cell anti-static flashlight. In March 1983, Bright Star's three-cell instrument was certified.

The EC standards demanded that the flashlight's plastic case be anti-static and specified the distance between the lens and the bulb. The raw materials to produce an anti-static plastic are not available in Europe, according to Folmer Andersen, vice president of P.R. Angel Inc.

P.R. Angel, the industrial division of the Chew International Group, is Bright Star's export trading company which guided the manufacturer's product development.

Finding the right combination of materials for the flashlightcase required years of laboratory work, Mr. Andersen said.

"We had failure after failure," he recounted. It took almost four years of testing materials and conferring with other laboratories to interpret the EC standards and with raw material suppliers, before an adequate product was achieved.

Although there were rumors that a German company had also developed a flashlight complying with the safety standards, the new entrant never surfaced, Mr. Andersen stated.

In 1981, France ordered that all safety equipment used in the country must comply with the EC standard. So far, this is the only country to have legislated compliance with EC standards, according to the P.R. Angel executive.

Meeting the EC standards means this one model of flashlight can obtain approval for sale in all EC countries.

Previously, each country imposed its individual standards, so a manufacturer wishing to sell one product to EC countries would have to design a different model for each nation.

The 17 European countries which constitute the European Committee for Electrotechnical Standardization, or Cenelec, wrote uniform safety standards for electric products in the late 1970s. It was this code which the EC adopted as its "harmonized standards."

This is indeed a marketing breakthrough for the manufacturer. With the introduction of this one product, other Bright Star equipment becomes attractive to customers, Mr. Andersen said.

Furthermore, a host of non-European countries comply with European standards by tradition: Australia, New Zealand, Hong Kong, to name a few; these are also potential markets for the Bright Star safety light.

1907 • ONE WORLD TRADE CENTER • NEW YORK, N.Y. 10048 • U.S.A.
6x

NEXCO
NATIONAL ASSOCIATION OF EXPORT COMPANIES, INC.
200 Madison Avenue • New York, New York 10016 • (212) 561-2025

Ralph H. Chew
President
Ole H. Nielsen
1st Vice President
Alfred D. Furth
2nd Vice President

Journal of Commerce article #2

THE JOURNAL OF COMMERCE, Tuesday, May 3 1983

Private Trading Firms Fight Port Agency Move

By TIM NEALE
Journal of Commerce Staff

Mel Zilinsky is concerned about the recent entry of the Port Authority of New York and New Jersey into the export trading business.

So is John Eastwood, Ralph Chew, Ole Nielsen and Harold Ross. All five men are involved in export trading themselves, and they feel the port agency has no business moving into their field.

"This isn't Moscow," says Mr. Zilinsky. ". . . . There's no valid reason for them to be involved in exporting."

The port authority, of course, feels different about the matter. Last year it established XPORT, an in-house export trading company, in the belief that a lot more U.S. manufacturers could be exporting goods overseas if they only had a helping hand from the public sector. According to Herbert Ouida, the project manager, XPORT already has signed marketing agreements with 25 firms and has arranged some trial shipments. By the end of the summer it expects to have some 70 clients and to be in full swing commercially.

The port agency is also hoping to have authority soon from the state legislatures of New York and New Jersey to take title to a manufacturer's goods and to become involved in financing export transactions. It has prepared legislation that would give it such authority, and Mr. Ouida said he is optimistic it will be enacted this year.

Mr. Chew and others in the export trading business are planning to fight the legislation, most likely through the National Association of Export Trading Companies (NEXCO). Mr. Chew is president of the association, which has some 170 members.

"I pay rent to these guys — I don't think they should be competing with me," said Mr. Chew, whose company, Chew International, is headquartered in the port authority-owned World Trade Center. "Members of the association have discussed this at several meetings and the consensus is that what the port authority is doing is unfair," he said.

Mr. Ouida maintains that private export trading companies have nothing to fear from XPORT. The port authority is not interested in "stealing" anyone else's clients, he says. It is only interested in helping manufacturing companies which are either new to exporting or new to a particular overseas market.

"We don't have the same bottom line that they do," said Mr. Ouida. "Our interest is in creating jobs and increasing port traffic."

He also mentioned that the port agency does not envision itself staying in the export trading business "forever." It will voice no objections if the export business it develops switches to the private sector down the road.

Such statements have not reassured Messrs. Eastwood and Chew.

"Three or four years ago, they told us they wouldn't get directly involved. Now they are and there's nothing to stop them from going

SEE TRADING, PAGE 5A

CONTINUED FROM PAGE 3A

further," said Mr. Eastwood, president of Ad Auriema.

"I know for a fact that they've contacted companies already involved in exporting," Mr. Chew added.

The port authority also has argued that private sector export trading companies have left a lot of virgin territory untapped — that they've passed over many domestic manufacturers who could be selling overseas.

But this too is a point of contention.

"Who are they to judge our export, effort?" asked Mr. Zilinsky, who specializes in the export of sheets and pillowcases.

"For years we've been taking small companies into export," said Mr. Chew. "Believe me, we're always looking for new companies and products. We live on new companies and products," he said.

Ironically some of the critics of the port authority's plans say they do not think the agency will be a successful export trader because it lacks expertise in that business. Should the port authority be given permission to take title to goods, however, it could pose problems for the private sector, Mr. Chew maintains. The port authority has a well-recognized name and huge financial resources, he said.

"If they were really interested in helping exports they should simply give NEXCO the information they've developed regarding exportable items — like the New York Chamber of Commerce does," said Mr. Zilinsky.

"We don't mind private competition. That's normal. But this is comparable to the U.S. Department of Commerce getting into the business," Mr. Ross concluded.

AD. AURIEMA,
INC.

747 MIDDLE NECK ROAD
GREAT NECK, NEW YORK 11024
TELEPHONE (516) 487-0700
CABLE AURIEMA--GREATNECKNEWYORKSTATE
TELEX WUI AURIEMA 62402 667203
DOMESTIC WU 971352 AURIEMA NYK

25 May, 1983

Mr. Ralph Chew
Chew International Group
One World Trade Center
Suite 1907
New York, N. Y. 10048

Subject: PORT AUTHORITY - ETC

Dear Ralph:

Enclosed are copies of two telexes received by our office in Germany from the "Export Development and Information Group" of "The World Trade Institute".

I wonder how many of these costly telexes have been sent worldwide - and who is paying for them. I wish I had the finances to introduce my products this way.

It seems that many of the products mentioned are different from the original lists given to NEXCO by the Port Authority which leads me to believe they have expanded their export promotion plans beyond the small group of New York-New Jersey manufacturers that were shown to NEXCO members originally. There are some products on this list that would fit right into our sales program.

I propose writing to the New York and New Jersey governors to protest the blatant misuse of public funds to engage in private enterprise transactions, but before doing so, I would like to know what formal action NEXCO is taking in this manner.

This issue may be, or could become, more important to EMC's than the ETC or DISC legislation. Once the PA receives official permission to set up a formal ETC operation, or are allowed to continue their promotion programs (per attached telexes), it will be very hard to stop them. Also, this program may act as a model and spread.

I would appreciate your comments.

Best regards,

8x

12.05.83 01.40 uhr. ++

723639 auri d
--auriema gmbh uhdestrasse,
--our reference: a-2030
--germany

a. we are the export development and information group of the world trade institute, a division of the port authority of new york and new jersey. we are implementing a program of export assistance to manufacturers in the states of new york and new jersey to develop export sales for them in foreign markets.

b. we are acting as exclusive export marketing managers for companies involved in the production of electrical test and measurement instruments.

c. product lines and market segments

i. digital v-a-w meter with true rms accuracy of 0.15 percent of input. ranges: dc to 50hz= 250 ua to 7a= 1 to 600v. with additional shunts etc range is extended to 500a, 20kv, 5mw. ample resolution, low circuit loading. ieee 488 interface available.

portable v-a-w meter with true rms accuracy of 1 percent, no batteries required. clamp-on probe.

note: both of these instruments provide up to twice the accuracy of similarly priced instruments.

product use/market segments

the above products are used for electrical testing, measurement and adjustments in utilities, laboratories and manufacturers of motors, transformers etc...
as well as aircraft maintenance as the instruments measuring range covers 400hz systems.

ii. precision reference/calibration instruments 1 part per million or 6 1/2 digit accuracy in all three instruments:

- programmable multimeter calibrator measures voltage, resistance, current.

- dc voltage and current sources with 5ppm/30 days stability and 1ppm linearity. also potentiometers, decade boxes, resistor references all from the foremost manufacturer of ultra stable, super accurate resistors.

market segments:

laboratories, instrument manufacturers for both r and d and inspection/calibration.

precision frequency converters (50, 60 and 400 hz) and static inverters based on digital sinewave synthesis rather than ferroresonant or step wave generation. available for both single and three phase. because of the circuit design they are light weight and highly power efficient. from 0.5 to 20kva.

market segments:
---

these top of the line instruments are used for bench testing of avionics by air forces, airlines and major aerospace manufacturers. also manufacturers of equipment destined to us markets test it under us conditions (110v, 60hz) from their own power supply (220v, 50hz).

iv. a range of infrared thermometers unmatched in both low (less than 200 degree c) and high temperature (up to 2480c) ranges. the portable models are available for general purpose use and specialised uses such as:

- long range to 30 meters for power lines
- low surface temperatures (-30c to +50c) for food, animals, insulation
- high accuracy +/- 1/2 c for medical applications
- hot gases temperature for furnaces with hold (memory) feature

market segments:
---

these instruments have a virtually unlimited range of applications: physics and life sciences, boiler and foundries, electronics, paper and plastic industries, metal and ceramics.

v. non-destructive alloy analyzer that distinguishes different alloys using the seebeck
effect: a probe connected to the instrument senses the thermo electric properties of the heated junction of two dissimilar (known: the probe and unknown: the sample) metals. by reading the digital or analog display the unknown alloy can be determined in many cases hardness and type of treatment can be identified.

these are available in portable, field cases and user calibrated.

market segments:
---

incoming inspection and quality control departments in metal working industries: nuclear power, industrial boilers, pipelines, and also valve, tube, switch and cable manufacturers. also a laboratory instrument. a unique instrument.

TELEX TELEX TELEX TELEX TELE

vi. a large selection of precision gages:

- hand held internal and external
- dial bore gages
- retractable deep hole gage
- groove (2 and 3 arm)
- thickness
- diameter
- concentricity

most of these gages are available for a large range of sizes and in both analog and digital models.

market segments:

all metalworking industries. a fine, essential instrument at a competitive price.

vii. presettable electronic counters, totalizers, tachometers, timers and transducers with continuous liquid crystal displays even in case of loss of power. up and down counting available in high speeds.

market segments:

machine tool manufacturers, scientific oems, coilwinding equipt etc,...

d. based upon your interest, we would like to telephone you to give you more details about our operation, and to discuss how to proceed to establish commercial relations, including a trial order.

e. we would appreciate your return telex with:

1. a list of your full product line and the market segments you serve. we may have other products that might be complementary to your line.

2. if you serve the market segments indicated in part c, please indicate your interest in any of the above product lines.

3. your comments including any additional information you need about these products, or about our organization.

4. an indication of your interest in meeting with our staff member, mr. c. thayer, who will be in your country during the next two months.

5. your mailing address, your telephone number, the correct person to contact, and the most convenient time for our telephone call.

6. please mention our reference number, which is shown above immediately before the beginning of the text of this message.

our telex number is: 427346 nyandnj

best regards,

robert keller, director
export development and
information group
wti
nnnn
+
728639 auri d.....
above via itt may 11 1983 2005 from 427346 nyandnj

12.05.83 02.05 uhr ++

TELEX TELEX

728639 auri d
-rw. witzger
-lauriema gmbh
--our reference: a-7697
--west germany

DIFFERENT PRODUCTS

a. we are the export development and information group of the world trade institute, a division of the port authority of new york and new jersey. we are implementing a program of export assistance to manufacturers in the states of new york and new jersey to develop export sales for them in foreign markets.

b. we are acting as exclusive export marketing managers for a group of companies involved in the production of various products and parts for the electronic industry, especially semiconductor/transistor manufacturers.

c. product description

their product lines include seven products lines that are used in different steps of manufacturing electronic products:

i. precision metal stampings of various alloys used as base plates for semiconductor components and discrete transistors.

ii. spheres, cut segments, solder and precision metal balls with a size range of 0.001 inches to 0.125 inches in diameter and up to one million parts per pound with 99.999 percent purity used in the electronic industry for soldering base metal to pads.

iii. carbon fixtures, crucibles and gigs for the transistor/semiconductor industry.

iv. dimension glass

1. flat glass cut to any size and shape, glazed windows with reflective and anti-reflective coating and tolerances as close as + or - 0.001 inches in length and width for sealing to metal, glass or alumina and used in incandescent and lcd readouts.

2. ceramilized lids where gold-tin or solder are pre-flowed to a ceramic lid.

3. dip-lids: fritted or solder glass glazed to black or white alumina to hermetically seal semiconductor packages at 360 to 415 degrees c. dip-lids are a fraction of cost of metal seals.

v. fine high precision wire and plated wire used for automatic interconnection bonding in the production of various electronic product including chips.

a computerized portable digital scale for simultaneously weigning and counting small parts. for example a 10 pound capacity scale can weigh items as small as 0.2 grams or 0.0005 pounds. simply by programming the scale for certain parts, you can weigh and count the incoming and outgoing small parts in any subassembly station of your production line. this scale is ideal for counting incoming parts from suppliers, or outgoing parts for customers or taking inventory or current parts.

d. product end use and market segments:

the above products are used in different steps of production in the electronic industry especially transistors/semiconductors. market segments would include electronic component manufacturers.

e. based upon your interest, we would like to telephone you, to give you more details about our operation, and to discuss how to proceed to establish commercial relations, including a trial order.

f. we would appreciate your return telex with:

1. a list of your full product line and the market segments you serve. we may have other products that might be complementary to your line.

2. if you serve the market segments indicated in part d, please indicate your interest in any of the above product lines.

3. your comments including any additional information you need about these products, or about our organization.

4. an indication of your interest in meeting with our staff member, mr. a. akhavan, who will be in your country during the next two months.

5. your mailing address, telephone number, the correct person to contact, and the most convenient time for our telephone call.

6. please mention our reference number, which is shown above immediately before the beginning of the text of this message.

our telex number is 427346 nyandnj.

best regards,

robert keller, director
export development and
information group
wti
nnnn

728639 auri d.....
above via itt may 16 1983 1848 from 427346 nyandnj

Japanese Trading Companies: A Dying Industry?

After long debate, Congress recently passed enabling legislation for establishing U.S.-owned trading companies, and Sears, Roebuck and General Electric among others have organized general trading concerns. It is ironic that this has been done in the belief that general trading companies have contributed much to Japan's export successes, for the effectiveness of Japan's *sogo shosha* as traders of the products of a sophisticated economy is now in serious question.

Asia

by James C. Abegglen and George Stalk

The names of the nine general trading companies collectively called *sogo shosha* are well known to international businessmen. They include Mitsubishi, Sumitomo, Nissho-Iwai and Mitsui. Some, like Mitsui, are hundreds of years old. Others, like Sumitomo, were formed this century. The nine together have annual sales totaling over $300 billion.

The companies have for a century imported and distributed commodities and products for use by Japanese industries and consumers. They have sought foreign customers for Japanese products, and they have provided financing to fledgling Japanese companies.

More recently the trading companies have been widely credited as a principal factor behind Japan's postwar export success, in particular in textiles, chemicals, steel, other bulk commodities and machinery. Developing economies such as South Korea that are seeking expanded export markets have strongly supported growth of similar companies.

However, the *sogo shosha* are becoming an anachronism in the developed economy of Japan. Few industrial sectors of Japan's economy had poorer profit growth in the 1970s than the *sogo shosha*. Among those that did were aluminum smelting and petrochemicals, which were hurt by high oil costs. Another was textiles, similarly a declining industry for Japan. The poor performance of the *sogo shosha* is hardly surprising considering that their principal products come from Japan's low-growth and declining industries.

More fundamental problems, however, exist. Each of the principal services traditionally supplied in Japan by the nine can now be competitively supplied by another form of business entity. Large companies are directly exporting and importing more of their own goods—relegating the trading companies to the role of order processers. Foreign suppliers of goods are increasingly capable of finding and serving their own Japanese customers.

In the mid-1970s the large trading companies exported over 70% of all Japanese iron and steel products; direct manufacturers' sales have reduced this to 60%. The situation is similar for the exports of chemicals. The share of machinery exports sold directly by major manufacturers has increased in 10 years from three companies with 11% to 29 companies with 30%. Direct sales to Japan by foreign companies have trimmed the major trading companies' share of machinery imports from 47% in the mid-1970s to 36% today. Because many Japanese companies, including Toyota and Matsushita, have captive trading companies not included in these statistics, these figures understate the trends.

In addition, Japan's financial institutions are taking over activities formerly dominated by the *sogo shosha*. The large banks are building international networks. Export financing and services are available from a wide variety of sources at competitive rates and quality. Both domestic and foreign banks in Japan are seeking the fee income from foreign transaction services provided to Japanese exporters and importers.

The declining performance of the *sogo shosha* suggests that other kinds of enterprises are more competitive in providing similar value to Japanese industries and consumers. Consequently, the *sogo shosha* must establish a new area of competitive advantage or perish. Evidence suggests that no single area has yet been identified, although at least three broad directions are being pursued.

First, the *sogo shosha* are seeking more "third-country" trade where, for example, a trading company might help a Malaysian firm sell rubber in Chile. Most of this trade is in foodstuffs, oils and other primary commodities. This approach is simply a replay of the companies' activities of the last 100 years but in different locales and with generally lower profit margins.

The second direction is increased participation as organizers and investors in high-risk overseas "mega" projects. The returns have been mixed. Mitsubishi would have shown a loss last year were it not for the dividend payments it received from its Brunei LNG joint venture. The other *sogo shosha* have not been as fortunate. C. Itoh's paper venture in Brazil has failed, and Mitsui is facing heavy losses from its Iranian petrochemical project.

The third direction is increased participation in product areas requiring sophisticated distribution. The electronic-systems general manager of Nissho-Iwai has said, "Like it or not we've got to tap high-tech businesses—otherwise trading companies will crumble."

The *sogo shosha* face a formidable task, however, in moving to higher technology and pitting themselves against established specialized competitors. The value added by the trading companies has usually been below 2% of sales, and is declining. In contrast, Tokyo Electron, a specialized importer of semiconductor manufacturing equipment, adds 24 yen of value for every 100 yen of sales and is growing at almost 30% per year. Sophisticated distribution will be a very new approach to business for the *sogo shosha*, which lack the sales, engineering and after-service capabilities required for sale of these products.

The strain of keeping up with their changing competitive environment is beginning to show in the financial statements of the nine companies. For the group of nine,

—Trading income as a percent of sales has fallen steadily from 1.00% to 0.44% in the last 10 years.

—Income from investments, including foreign projects, has grown to be more than twice trading income.

—In the last 10 years extraordinary losses from high-risk trading and investments have increased from less than 10% to consistently over 25%, of trading income.

—About $1 billion of new equity issued in the last five years has been added to their mid-1970s equity base of $2.5 billion to arrest the steady deterioration of their debt-to-equity ratio, which peaked at 11 in the mid-1970s.

—Return on equity has declined from a meager 7% or 8% to 4%.

Some of the companies are less healthy than the averages indicate, while others are more robust. Kanematsu Gosho has had particularly difficult times in the past several years. Its return on equity has been almost zero and its debt is 14 times its equity and increasing. In contrast, Sumitomo has comparatively low debt and its return on equity is consistently above 10%.

The restructuring of the *sogo shosha* will likely occur over a long period. These are large and still powerful companies. Mitsui, for example, was recently able to raise its Japan rank as a profit maker from 40th to 14th by selling some of its long-held securities. Nevertheless, the performance of the trading companies will continue to sag. As a director of the Sumitomo Bank said, "This is *sogo shosha's* age of winter; they must find a new raison d'etre."

Mr. Abegglen is a vice president, and Mr. Stalk is a manager, in the Tokyo office of the Boston Consulting Group.

NEXCO
NATIONAL ASSOCIATION OF EXPORT COMPANIES, INC.
200 Madison Avenue • New York, New York 10016 • (212) 561-2025

Ralph H. Chew
President
Ole H. Nielsen
1st Vice President
Alfred D. Furth
2nd Vice President

THE JOURNAL OF COMMERCE, Tuesday, May 3 1983

Private Trading Firms Fight Port Agency Move

By TIM NEALE
Journal of Commerce Staff

Mel Zilinsky is concerned about the recent entry of the Port Authority of New York and New Jersey into the export trading business.

So is John Eastwood Ralph Chew, Ole Nielsen and Harold Ross. All five men are involved in export trading themselves, and they feel the port agency has no business moving into their field.

"This isn't Moscow," says Mr. Zilinsky. ". . . There's no valid reason for them to be involved in exporting."

The port authority, of course, feels different about the matter. Last year it established XPORT, an in-house export trading company, in the belief that a lot more U.S. manufacturers could be exporting goods overseas if they only had a helping hand from the public sector. According to Herbert Ouida, the project manager, XPORT already has signed marketing agreements with 25 firms and has arranged some trial shipments. By the end of the summer it expects to have some 70 clients and to be in full swing commercially.

The port agency is also hoping to have authority soon from the state legislatures of New York and New Jersey to take title to a manufacturer's goods and to become involved in financing export transactions. It has prepared legislation that would give it such authority, and Mr. Ouida said he is optimistic it will be enacted this year.

Mr. Chew and others in the export trading business are planning to fight the legislation, most likely through the National Association of Export Trading Companies (NEXCO). Mr. Chew is president of the association, which has some 170 members.

"I pay rent to these guys — I don't think they should be competing with me," said Mr. Chew, whose company, Chew International, is headquartered in the port authority-owned World Trade Center. "Members of the association have discussed this at several meetings and the consensus is that what the port authority is doing is unfair," he said.

Mr. Ouida maintains that private export trading companies have nothing to fear from XPORT. The port authority is not interested in "stealing" anyone else's clients, he says. It is only interested in helping manufacturing companies which are either new to exporting or new to a particular overseas market.

"We don't have the same bottom line that they do," said Mr. Ouida. "Our interest is in creating jobs and increasing port traffic."

He also mentioned that the port agency does not envision itself staying in the export trading business "forever." It will voice no objections if the export business it develops switches to the private sector down the road.

Such statements have not reassured Messrs. Eastwood and Chew.

"Three or four years ago, they told us they wouldn't get directly involved. Now they are and there's nothing to stop them from going

SEE TRADING, PAGE 5A

CONTINUED FROM PAGE 3A

further," said Mr. Eastwood, president of Ad Auriema.

"I know for a fact that they've contacted companies already involved in exporting," Mr. Chew added.

The port authority also has argued that private sector export trading companies have left a lot of virgin territory untapped — that they've passed over many domestic manufacturers who could be selling overseas.

But this too is a point of contention.

"Who are they to judge our export effort?" asked Mr. Zilinsky, who specializes in the export of sheets and pillowcases.

"For years we've been taking small companies into export," said Mr. Chew. "Believe me, we're always looking for new companies and products. We live on new companies and products," he said.

Ironically some of the critics of the port authority's plans say they do not think the agency will be a successful export trader because it lacks expertise in that business. Should the port authority be given permission to take title to goods, however, it could pose problems for the private sector, Mr. Chew maintains. The port authority has a well-recognized name and huge financial resources, he said.

"If they were really interested in helping exports they should simply give NEXCO the information they've developed regarding exportable items — like the New York Chamber of Commerce does," said Mr. Zilinsky.

"We don't mind private competition. That's normal. But this is comparable to the U.S. Department of Commerce getting into the business," Mr. Ross concluded.

STATEMENT OF

PETER C. GOLDMARK, JR.
EXECUTIVE DIRECTOR
THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

ON

XPORT -- PORT AUTHORITY'S EXPORT INITIATIVE FOR SMALLER BUSINESSES IN NEW YORK AND NEW JERSEY

BEFORE

THE STATE GOVERNMENT, FEDERAL & INTERSTATE
RELATIONS & VETERANS' AFFAIRS COMITTEE

OF THE

NEW JERSEY STATE SENATE

IN CONJUNCTION WITH

THE COMMITTEE ON CORPORATIONS,
AUTHORITIES AND COMMISSIONS

OF THE

NEW YORK STATE ASSEMBLY

SEPTEMBER 27, 1983

MY NAME IS PETER C. GOLDMARK, JR. AND I AM THE EXECUTIVE DIRECTOR OF THE PORT AUTHORITY OF NEW YORK & NEW JERSEY. THANK YOU FOR EXTENDING THE INVITATION TO THE PORT AUTHORITY TO DISCUSS THE ISSUES RELATED TO OUR EXPORT TRADING LEGISLATIVE PROPOSAL. I WILL FOCUS ESPECIALLY ON THE FOLLOWING KEY POINTS:

FIRST, THE EXCITING OPPORTUNITY FOR OUR TWO STATES TO BE AMONG THE FIRST TO MOVE FORWARD WITH A PUBLIC TRADING COMPANY, REAPING THE BENEFITS WITH RESPECT TO GROWTH OF BUSINESS AND JOBS. THE EXPORT TRADING COMPANY MODEL HAS PROVEN ITS GREAT VALUE IN EXPLOITING THAT OPPORTUNITY, PARTICULARLY BY THE JAPANESE. LARGE NUMBERS OF STATES HAVE THE ETC MODEL UNDER STUDY; THUS FAR, ONLY OREGON HAS PASSED SUCH LEGISLATION. WE BELIEVE THAT A PUBLIC ETC, OPERATED BY THE PORT AUTHORITY IS ESSENTIAL TO MAKING THIS OPPORTUNITY AVAILABLE TO THE STATES' SMALL AND MEDIUM-SIZED BUSINESSES.

SECOND, OUR WORK CONFIRMS STUDIES SHOW THAT SIGNIFICANT NUMBERS OF SMALL AND MEDIUM-SIZE BUSINESSES CURRENTLY DO NOT EXPORT BUT HAVE EXPORT POTENTIAL. THESE COMPANIES DO NOT EXPORT BECAUSE OF NUMEROUS BARRIERS-TO-ENTRY INCLUDING LACK OF FINANCING, COMPLEXITY OF EXPORT BUSINESS, COMPLICATED AND ONEROUS PAPERWORK, LANGUAGE BARRIERS, LACK OF KNOWLEDGE OF FOREIGN MARKETS AND FOREIGN CURRENCIES, MYTHS ABOUT NECESSARY SIZE OF OPERATION, AND HIGH TRANSACTION COSTS.

THIRD, AN EXPORT TRADING COMPANY PROVIDES ONE SOLUTION TO THESE PROBLEMS BECAUSE A TRADING COMPANY IS A LOGISTICAL SYSTEM WHICH ACTS AS AN INTERMEDIARY BETWEEN BUYER AND SELLER PROVIDING AN INTEGRATED RANGE OF SERVICES ALLOWING "ONE STOP SHOPPING" FOR THE DOMESTIC COMPANY. IT MAKES EXPORTING BOTH AS EASY AS SELLING LOCALLY AND COST-EFFECTIVE BECAUSE OF THE ECONOMIES OF SCALE DERIVED FROM AGGREGATING SMALLER FIRMS.

FOURTH, THESE IS A SPECIAL NEED AND ROLE FOR PUBLIC SECTOR ETCS THAT COMPLEMENTS AND ENHANCES THE PRIVATE SECTOR. PUBLIC SECTOR ETCS CAN BE KEYED TO LOCAL, STATE AND REGIONAL NEEDS, WHEREAS, PRIVATE SECTOR ETCS ARE NOT RESTRICTED TO SOURCE, PORTS OR REGIONS. PUBLIC SECTOR ETCS CAN WORK WITH COMPANIES WHO ARE CURRENTLY UNATTRACTIVE TO THE PRIVATE SECTOR BECAUSE OF THE PROSPECT OF DELAYED OR CONTINGENT RETURNS. PUBLIC SECTOR ETCS CAN ALSO ACT AS A "MAGNET" AND CATALYST IN CREATING NEW MARKETS FOR PRIVATE SECTOR EXPORT SERVICE COMPANIES. MOREOVER, THE 1982 FEDERAL EXPORT TRADING COMPANY LEGISLATION RECOGNIZED THE IMPORTANT ROLE ETCS -- BOTH PUBLIC AND PRIVATE SECTOR -- MUST PLAY. THE ACT SPECIFICALLY ENCOURAGES "STATE AND LOCAL GOVERNMENT ENTITIES, INCLUDING PORT AUTHORITIES..." TO RESPOND TO THE GLARING NEED TO EXPAND EXPORTS AND INTERNATIONAL TRADE.

FIFTH, WE HAVE TRADITIONALLY PROVIDED NUMEROUS TRADE FACILITATION SERVICES AND ECONOMIC DEVELOPMENT ACTIVITIES TO PROTECT AND PROMOTE PORT COMMERCE IN OUR REGION. THE CRITICAL INGREDIENT UPON WHICH THE SUCCESS OF OUR EXPORT DEVELOPMENT WORK DEPENDS IS LEGISLATION. WE NEED BI-STATE AUTHORIZATION TO ENABLE US TO PROVIDE COMPLETE "ONE-STOP" SERVICES, INCLUDING FINANCING, TO SMALL AND MEDIUM-SIZED BUSINESSES. THE TRADING COMPANY PROJECT IS AN IMPORTANT AND DIFFICULT TASK; WE MUST BUILD IN FLEXIBILITY AND AS MANY SUCCESS FACTORS AS POSSIBLE. A TRADING COMPANY CANNOT BE FORMED IN A SHORT PERIOD OF TIME. MOREOVER, WE BELIEVE IT EXTREMELY IMPORTANT TO BUILD A LONG-TERM COMMITMENT AND ESTABLISH CONTINUITY. OUR TRADING PARTNERS ALREADY PERCEIVE THE U.S. AS A SHORT-RUN PLAYER -- IN WHEN TIMES ARE BAD AT HOME, OUT WHEN TIMES ARE GOOD, AND NOT SERIOUS TRADERS. BECAUSE OF GLOBAL CHANGES, AMERICANS MUST NOW CULTIVATE NEW ATTITUDES TOWARDS THE INTERNATIONAL MARKETPLACE AND IT IS THE PUBLIC SECTOR'S RESPONSIBILITY TO WORK WITH THE BUSINESS COMMUNITY TO PROVIDE A FERTILE ENVIRONMENT FOR SUCH CULTIVATION.

BACKGROUND ON PORT AUTHORITY

AS MANY OF YOU KNOW, THE PORT AUTHORITY IS A BI-STATE PUBLIC AUTHORITY CREATED BY COMPACT BETWEEN THE STATES OF NEW YORK AND NEW JERSEY WITH THE CONSENT OF CONGRESS. WE OPERATE MANY FACILITIES OF COMMERCE, INCLUDING BRIDGES, TUNNELS, THE AIRPORTS, MARINE TERMINALS AND THE WORLD TRADE CENTER. BECAUSE OF THE NATURAL TRADE FOCUS OF OUR PORT AND AIRPORTS, AND OUR MANDATE TO STRENGTHEN THE REGIONAL ECONOMY, WE HAVE SEARCHED FOR WAYS TO HARNESS THE POWER OF EXPORTING AS AN ECONOMIC DEVELOPMENT TOOL.

IMPORTANCE OF TRADE

THE IMPORTANCE OF EXPORTING TO NEW JERSEY AND NEW YORK SHOULD NOT BE UNDERESTIMATED. THE TWO STATES WHICH CREATED THE PORT AUTHORITY ARE LEADERS IN EXPORT RELATED INDUSTRIES. NEW JERSEY HAS ALMOST 175,000 JOBS DIRECTLY TIED TO EXPORT RELATED INDUSTRIES AND RANKS TENTH IN THE COUNTRY. NEW YORK STATE HAS ALMOST 375,000 JOBS DIRECTLY TIED TO EXPORT RELATED INDUSTRIES. AS AN EXPORTING STATE, NEW YORK RANKS SECOND ONLY TO CALIFORNIA. MOREOVER, IN 1980, THE VALUE OF SHIPMENTS RELATED TO EXPORTS REACHED $15 BILLION WHICH WAS 13.5% OF ALL MANUFACTURING SHIPMENTS IN NEW YORK. IN NEW JERSEY, FOR THE SAME PERIOD, THE VALUE OF EXPORT SHIPMENTS WAS $8.5 BILLION WHICH WAS 12.2% OF ALL NEW JERSEY MANUFACTURING SHIPMENTS.

MORE RECENTLY OUR REGIONAL SCENE MIRRORS THE NATIONAL PICTURE. THE GAP BETWEEN IMPORTS AND EXPORTS HAS CONTRIBUTED TO GROWING UNEMPLOYMENT AND CONTINUING TROUBLES FOR MANY INDUSTRIES. ON JULY 11, 1983 THE NEW YORK TIMES REPORTED THAT THIS YEAR MERCHANDISE IMPORTS WILL EXCEED EXPORTS BY $60 BILLION, WHICH IS 50% WIDER THAN LAST YEAR'S RECORD DEFICIT. WHILE IT IS TRUE THAT A STRONG DOLLAR, HIGH LABOR COSTS, PRODUCTIVITY PROBLEMS AND THE WORLDWIDE RECESSION PLAY CRITICAL ROLES IN THIS AREA, WE MUST RESPOND

WITH ALL MEASURES WITHIN OUR CONTROL TO RECTIFY THE SITUATION. THE NEED IS DRAMATIZED BY THE FACT THAT IN THE LAST FIVE YEARS, FOUR OUT OF EVERY FIVE NEW MANUFACTURING JOBS WERE RELATED TO THE EXPORTING INDUSTRY AND THAT TWO OUT OF EVERY FIVE FARM ACRES ARE DEPENDENT ON FOREIGN MARKETS. IT IS A FACT THAT THE FOREIGN TRADE SECTOR IS AN INCREASINGLY IMPORTANT PART OF THE NATIONAL ECONOMY AS WELL AS THE REGIONAL ECONOMY. EXPORTS HAVE GROWN FROM 6.4% OF THE NATION'S GNP IN 1970 to 12.9% IN 1980.

BY 1980, 70% OF ALL GOODS PRODUCED IN THE U.S. WERE ACTIVELY COMPETING WITH FOREIGN MADE GOODS. WE ARE PART OF A WORLD MARKET. IT IS A FACT THAT THE CONTINUED COMPETITIVENESS OF OUR TWO STATES IS DEPENDENT ON THE ABILITY TO EXPORT FOR SEVERAL REASONS.

EXPORTS TEND TO LOWER THE OVERALL COST OF PRODUCTION BY LOWERING UNIT COSTS WHEN THE ECONOMY IS NOT AT FULL EMPLOYMENT. THIS WILL ALSO TEND TO MAKE THE EXPORTING COMPANIES MORE COMPETITIVE IN DOMESTIC MARKETS. MOREOVER, THE EXPORT OF HIGH TECHNOLOGY PRODUCTS TO OTHER COUNTRIES, PARTICULARLY DEVELOPING COUNTRIES, WILL ALLOW THEM TO INCREASE THEIR PRODUCTIVE CAPACITIES AND THEREFORE, IMPORT MORE IN THE FUTURE. THE EMPHASIS ON THE EXPORT OF TECHNOLOGY-INTENSIVE GOODS WILL ALSO CONTRIBUTE TO THE EFFORT OF MAINTAINING THE REGION AND THE TWO STATES AS A CENTER FOR HIGH TECHNOLOGY INDUSTRIES.

THE VIGOROUS PROMOTION OF EXPORTS FROM NEW YORK AND NEW JERSEY WILL ALSO BENEFIT THE PORT AND AVIATION INDUSTRIES THROUGH THE SERVICING OF INTERNATIONAL TRADE. THIS INCLUDES MARINE AND AIR TRANSPORTATION SERVICES, STEVEDORING, GOVERNMENT SERVICES, INTERNATIONAL FREIGHT FORWARDING, BANKING AND INSURANCE.

IN ADDITION, THE PROMOTION OF EXPORTS WHICH ARE PRODUCED OUTSIDE OF OUR TWO STATES MAY ALSO HAVE POSITIVE BENEFITS HERE. FIRMS IN THIS AREA COULD SUPPLY SOME OF THE INPUTS USED IN THE PRODUCTION OF THE EXPORTED GOODS AND IN THE TRANSACTION FUNCTIONS, PARTICULARLY IN THE SERVICE, FINANCE, AND TRANSPORTATION CATEGORIES. FOR EXAMPLE, OUR PORT HANDLES LARGE VOLUMES EXPORTS ORGINATING IN THE MID-WEST.

PORT AUTHORITY TRADE DEVELOPMENT

THUS, THE QUESTION WAS HOW THE PORT AUTHORITY COULD TRANSLATE ITS ACCUMULATION OF INTERNATIONAL EXPERIENCE, EXPERTISE AND CONTACTS INTO A TRUE PUBLIC ASSET? SO WE STUDIED. WE DID RESEARCH. WE IMPLEMENTED NEW PROGRAMS, THE WORLD TRADE INSTITUTE NOW SERVES AS THE EDUCATIONAL ARM OF THE WORLD TRADE CENTER. LAST YEAR 8,000 ATTENDEES PARTICIPATED IN 600 COURSES RANGING FROM INTERNATIONAL FINANCE TO DISTRIBUTION STRATEGIES. WE RECEIVED A GRANT FROM THE U.S. DEPARTMENT OF COMMERCE FOR OUR REGIONAL EXPORT ASSISTANCE PROGRAM (REAP) IN WHICH WE MATCHED MANUFACTURERS WITH EXPORT MANAGEMENT COMPANIES. OUT OF ONE HUNDRED FIFTY FIRMS, TWENTY-FIVE ACTUALLY SIGNED AGREEMENTS WITH EMCs FOR WHICH THE PROJECTED SALES ARE $2.3 MILLION PER YEAR. WE ADDED MARKET RESEARCH PERSONNEL TO OUR OVERSEAS TRADE OFFICES IN TOKYO, LONDON AND ZURICH AND AS A RESULT WERE ABLE TO DIRECTLY PROVIDE TRADE LEADS TO LOCAL COMPANIES WHICH BOOSTED EXPORT SALES BY ANOTHER $2 TO $3 MILLION. WE ALSO SURVEYED NEW YORK AND NEW JERSEY AND CONCLUDED THERE WERE ABOUT 2,500 SMALL AND MEDIUM-SIZED FIRMS WITH EXPORT POTENTIAL - ABOUT 1,600 ARE IN NEW YORK AND 900 IN NEW JERSEY. WE DECIDED THAT WHILE OUR EFFORTS TO PROVIDE EDUCATION, CONDUCT TRADE MISSIONS, MATCH COMPANIES WITH EMCs, PASS ON TRADE LEADS FROM OUR OVERSEAS OFFICES, AND INTRODUCE SMALL COMPANIES TO EXPORTING IN NEW MARKETS THROUGH TRADE

MISSIONS, WERE ALL LAUDABLE -- THEY WERE NOT ENOUGH. IN ORDER TO REALLY SERVE THE EXPORTING COMMUNITY, WE HAD TO GET CLOSER TO IT.

XPORT -- THE PORT AUTHORITY TRADING COMPANY

IN MARCH 1982 WE CREATED XPORT -- THE PORT AUTHORITY TRADING COMPANY -- AS AN ACTIVITY OF OUR WORLD TRADE DEPARTMENT. THE HEART OF ITS SPECIAL MISSION WAS TO FOCUS ON "ADDITIONALITY" -- CREATING NEW SMALL BUSINESS EXPORTS THAT WOULD NOT HAVE OCCURED IN THE ABSENCE OF OUR INTERVENTION. BECAUSE OF THIS FOCUS, WE HAVE SPECIAL CRITERIA:

- THE COMPANIES SHOULD BE SMALL OR MEDIUM IN SIZE
- THE FOCUS IS ON FIRMS WHICH HAVE PRODUCTION FACILITES IN NEW JERSEY OR NEW YORK
- THEY MUST HAVE DONE LITTLE OR NO EXPORTING
- THEY MUST PRODUCE GOODS WE BELIEVE HAVE EXPORT POTENTIAL

OUR FIRST YEAR HAS BEEN SPENT SEARCHING FOR THE RIGHT COMPANIES AND THE RIGHT PRODUCTS. TO DATE, IT LOOKS LIKE WE WILL EXCEED OUR GOAL OF 50 COMPANIES AND SIGN AGREEMENTS WITH APPROXIMATELY 70, OF WHICH, ABOUT HALF ARE IN EACH STATE. SEVENTY-FIVE PERCENT OF OUR COMPANIES HAVE LESS THAN $5 MILLION IN SALES. FIFTY PERCENT HAVE LESS THAN 35 EMPLOYEES. THESE ARE SMALL COMPANIES. THE MAJORITY ARE WHAT WE CALL "EMERGING BUSINESSES." THEY PRODUCE TECHNOLOGY-INTENSIVE PRODUCTS -- IN THE MEDICAL FIELD, INSTRUMENTATION, COMPUTERS AND PERIPHERALS. OTHER COMPANIES REPRESENT THE SPECIALTY END OF SECTORS TRADITIONALLY IMPORTANT TO OUR REGION. WE ARE HELPING A SMALL NUMBER OF COMPANIES IN CHEMICALS, PAPER, FOOD, FOOD PROCESSING EQUIPMENT, FURNITURE, APPAREL AND FURS WHO HAVE EMBARKED UPON ADJUSTMENT STRATEGIES AND PRODUCE SPECIALTY AND/OR HIGH VALUE-ADDED GOODS.

WE ENTER INTO A THREE YEAR EXPORT MARKETING AGREEMENT WITH THESE COMPANIES AND OFFER THEM INTEGRATED SERVICES INCLUDING MARKET RESEARCH, TRANSPORTATION, DOCUMENTATION, LABELLING, PACKAGING, DISTRIBUTION AND AFTER SALES SERVICE DESIGNED TO PENETRATE FOREIGN MARKETS. THESE SERVICES ARE ALL OFFERED ON A SUCCESS BASIS - WE RECEIVE NO FEE UNLESS A SALE IS MADE. A TARGET FOR SALES IS SET FOR EACH YEAR OF THE AGREEMENT - IF THE TARGET IS NOT REACHED, THE COMPANY HAS THE RIGHT TO TERMINATE THE AGREEMENT.

WE PROJECT VERY MODEST SALES STARTING IN JULY 1983 - AUGUST 1984 OF $8.5 MILLION INCREASING TO $21 MILLION BY YEAR 1986. IF SALES GROW, AS WE HOPE, WE MAY BREAK EVEN IN YEAR FIVE BUT IT'S TOO EARLY TO PRECISELY PREDICT. MUCH DEPENDS ON FACTORS WHICH ARE ENTIRELY BEYOND OUR CONTROL -- SUCH AS THE STRENGTH OF THE U.S. DOLLAR AND WHEN RECOVERY FROM THE WORLD RECESSION BEGINS. IF THE DOLLAR BECOMES LESS OVERVALUED AND THE RECESSION ENDS WITHIN THE NEXT YEAR OR TWO, AS WE PREDICT, SPARKING A ROBUST RECOVERY, THEN WE SHOULD BE POSITIONED TO MAKE IMPORTANT INROADS IN WORLD MARKETS WHICH CAN SIGNIFICANTLY CONTRIBUTE TO THE STATES' OVERALL COMPETITIVE POSITIONS.

ECONOMIC IMPACT

IN APRIL, OUR PLANNING AND DEVELOPMENT DEPARTMENT CONDUCTED A PRELIMINARY ECONOMIC IMPACT ASSESSMENT OF THE TRADING COMPANY'S PROJECTED EXPORT SALES FOR THE FIRST THREE YEARS OF OPERATION. THIS WAS DONE TO ESTABLISH A BASE LINE FOR MEASURING OUR INVESTMENT AND WORK IN THE REGION AS WELL AS BOTH STATES. THESE PROJECTIONS ARE BASED ON OUR CURRENT IMPLEMENTATION PLAN, OPERATING WITHOUT NEW LEGISLATION AND THE INDISPENSABLE AUTHORIZATION TO PLAY AN EQUITY ROLE WHICH WILL PERMIT US TO MAXIMIZE OUR ECONOMIC DEVELOPMENT EFFORTS. THE TOTAL JOB GENERATION IMPACT BY 1986 IS 500 JOBS THROUGHOUT BOTH STATES.

THE FOLLOWING ARE HIGHLIGHTS OF THE FINDINGS WHICH DETAIL THE BENEFITS TO THE REGIONAL AND BI-STATE ECONOMY FROM THE SALE OF GOODS EXPORTED AND THE INDIRECT AND INDUCED ACTIVITIES IT GENERATES.

Year	XPORT Projected Sales (in millions)	Total Economic Impact Generated (in millions) Region NY & NJ		New Jobs Created Region NY & NJ		Incrased Tax Collections (in thousands) Region NY & NJ	
1983-84	$ 8.5	$ 5.6	$13.8	80	215	$150	$ 370
1984-85	$15	$ 8.1	$29.4	110	400	$200	$ 790
1985-86	$21	$11.5	$43	150	500	$300	$1,200

THE PORT AND AVIATION INDUSTRIES WILL ALSO BENEFIT BY PROVIDING THE TRANSPORTATION AND SERVICES REQUIRED FOR EXPORTING. IT IS IMPORTANT TO NOTE THAT NEW YORK'S AIR CARGO EXPORTS FELL 10.9% IN THE FIRST HALF OF 1983.

THE INDISPENSABLE INGREDIENT UPON WHICH OUR WORK DEPENDS IS LEGISLATION. WE NEED BI-STATE AUTHORIZATION TO ENABLE US TO GO BEYOND THE PORT AUTHORITY'S PRESENT MANDATE TO PROTECT AND PROMOTE COMMERCE IN THE PORT DISTRICT IN ORDER TO PROVIDE A "ONE-STOP" EXPORT TRADING COMPANY. WE HOPE TO SOMEDAY TRULY MAKE EXPORTING AS EASY AS SELLING NEXT DOOR FOR SMALL FIRMS. TO DO THIS WE NEED TO BE ABLE TO TAKE TITLE TO GOODS. WE NEED TO PROVIDE ACCESS TO FINANCING: PRIMARILY FINANCING RECEIVABLES, PRE-EXPORT WORKING CAPITAL LOANS AND EXTENDING SHORT AND MEDIUM-TERM CREDIT. WE ANTICIPATE PRIVATE SECTOR PARTICIPATION IN OUR EFFORTS, STIMULATED BY THE 1982 FEDERAL LEGISLATION, WHICH WILL ALLOW A SHARING OF RISK AND REVENUES BY BANKS. PORT AUTHORITIES AND OTHER PUBLIC ENTITIES THROUGHOUT THE COUNTRY ARE EXPLORING WAYS TO FORM TRADING COMPANIES TO SEIZE THE OPPORTUNITY CREATED BY THE FEDERAL LEGISLATION. ACCORDING TO A BUREAU OF NATIONAL AFFAIRS SURVEY, AT LEAST 31 STATES AND THE

DISTRICT OF COLUMBIA HAVE STUDIED THE QUESTION OF PROVIDING FINANCIAL INCENTIVES TO EXPORTERS LEGISLATIVELY OR ADMINISTRATRIVELY, AND LEGISLATURES IN NINE STATES HAVE PASSED LAWS DEALING EITHER WITH FINANCIAL ASSISTANCE OR TAX INCENTIVES FOR EXPORTERS. OREGON MOVED QUICKLY IN JUNE 1983 TO BECOME THE FIRST STATE IN THE NATION TO ALLOW ITS PORT AUTHORITIES TO FORM FULL SERVICE EXPORT TRADING COMPANIES. THE PORT OF PORTLAND IS STUDYING XPORT AS A MODEL FOR THEIR OWN DEVELOPMENT. WHILE STILL THE RECOGNIZED LEADER AMONG PUBLIC SECTOR ETC EFFORTS, NEW YORK AND NEW JERSEY MAY SOON BE SURPASSED BY OTHER STATES SUCH AS OREGON, WASHINGTON, PENNSYLVANNIA, VIRGINIA, NORTH CAROLINA AND CALIFORNIA.

OUR DESIRE IS FOR QUICK LEGISLATIVE ACTION SO THAT OUR BUSINESSES WILL ENJOY THE HEAD START WE HAVE IN USING THE NEW TRADING COMPANY MECHANISM AS AN ECONOMIC DEVELOPMENT ENGINE. IT IS IMPERATIVE THAT THE COMPETITIVE ECONOMIC POSITION OF OUR REGION BE PROTECTED BY THE LEGISLATURES PROVIDING US WITH THE ABILITY TO CARRY OUT THIS PROJECT.

NEEDS ASSESSMENT OF SMALLER EXPORTERS

OUR ASSESSMENT OF THE PROBLEMS AND NEEDS OF SMALL BUSINESS EXPORTERS, BASED ON OUR WORK IN THIS AREA AS WELL AS CURRENT ACADEMIC AND GOVERNMENT STUDIES, PROVIDES A FRAMEWORK FOR UNDERSTANDING THE NEED AND INABILITY OF SMALLER BUSINESSES TO OBTAIN EXPORT FINANCING WHICH ARE NOT ADDRESSED BY THE EXISTING SYSTEM. WHILE COMMERCIAL INTEREST RATE FLUCTUATIONS AND THE ABNORMALLY HIGH LEVELS OF INTEREST RATES IN THE U.S. SINCE 1978 HAVE CREATED A GENERIC PROBLEM FOR EXPORT FINANCING FACING ALL EXPORTERS, THE DOMESTIC INTEREST RATE STRUCTURE HAS HAD A DISPROPORTIONATE, ADVERSE IMPACT ON SMALL BUSINESSES. A 1982 SBA STUDY POINTS OUT THAT "THE PROPORTION OF SHORT TERM BANK LOANS OF LESS THAN $500,000 TO TOTAL BANK CREDITS DECREASED FROM ABOUT 40% IN MAY OF 20% TO LESS THAN 20% IN LATE 1981." THIS IS CLEAR EVIDENCE THAT SMALL FIRMS

ARE BEING DENIED ACCESS TO CREDIT. THEY ARE HARDEST HIT BECAUSE OF THEIR LIMITED FINANCIAL RESERVES AND CAPACITY.

THE FIRST WASHINGTON ASSOCIATES STUDY, COMMISSIONED BY THE NEW YORK STATE DEPARTMENT OF COMMERCE, CONCLUDED THAT SMALLER FIRMS DO HAVE GREATER DIFFICULTY OBTAINING EXPORT FINANCING. COMMERCIAL LENDERS TEND TO OVERLOOK BUSINESSES DEALING IN RELATIVELY SMALL VOLUME AND VALUE TRANSACTIONS, WHICH IS UNDERSTANDABLE. TRANSACTION COSTS ARE HIGH WHEN DEALING WITH THE LITTLE GUY. CONSEQUENTLY, THE SMALL FIRM EXPORTER GENERALLY FINDS FEWER CREDIT OPTIONS AND FACES HIGHER TRANSACTION COSTS. THE PUBLIC SECTOR HAS NOT TRADITIONALLY OFFERED MUCH HELP. IN 1981 EXIMBANK MADE JUST OVER $1 BILLION AVAILABLE IN DIRECT LOANS, GUARANTEES, DISCOUNT LOANS AND INSURANCE TO NEW YORK AND NEW JERSEY BUSINESSES. APPROXIMATELY 10% OF THIS CAPITAL WAS UTILIZED BY SMALL BUSINESSES (LESS THAN 500 EMPLOYEES). LEGISLATION HAS BEEN INTRODUCED IN CONGRESS TO CORRECT THIS NATIONAL SITUATION, BUT ITS FUTURE IS UNCLEAR. WHEN PRESSED AS TO WHY SO LITTLE OF ITS RESOURCES ARE UTILIZED BY SMALL BUSINESSES, EXIMBANK'S ANSWER IS THAT THESE COMPANIES DON'T EXPORT. A PERFECT ILLUSTRATION OF THE PROVERBIAL "CHICKEN" VS. "EGG" DILEMMA.

EXIMBANK

ON THE ISSUE OF EXIMBANK, I WOULD LIKE TO ADD, HOWEVER, AN EXAMPLE OF THE DYNAMICS INDUCED BY THE PORT AUTHORITY TRADING COMPANY PROJECT. WE HAVE RECENTLY APPROACHED EXIMBANK/FCIA WITH THE CONCEPT OF ADMINISTERING A GROUP COMMERCIAL AND POLITICAL INSURANCE POLICY THROUGH THE PORT AUTHORITY FOR OUR SMALL FIRMS. THIS WOULD CONTINUE TO PLACE THE GUARANTEE FUNCTION ON THE UNITED STATES BUT WILL PROVIDE THE BASIS FOR A HEALTHY STATE CONNECTION. FOR THE COMPANIES IT MEANS GUARANTEES WHICH MAKE COMMERCIAL LOANS MORE FEASIBLE AT REASONABLE RATES. FOR EXIMBANK/FCIA IT PROVIDES AN OPPORTUNITY TO ANSWER THE CRITICS WHO CLAIM THEY ONLY WORK WITH THE "BIG TICKET ITEM." FOR THE PORT

AUTHORITY IT MEANS SERVING AS THE PROTOTYPE FOR SUCH FEDERAL/STATE COOPERATION THROUGHOUT THE NATION. EXIMBANK OFFICIALS NOW RECOGNIZE THAT TO PROVIDE COMPETITIVE FINANCING TO U.S. EXPORTERS, MORE NEEDS TO BE DONE TO INCREASE THE EFFECTIVENESS OF TRADE PROGRAMS. A PUBLIC TRADING COMPANY IS IN A MUCH BETTER POSITION THAN THE FEDERAL GOVERNMENT TO IMPROVE THE "DELIVERY SYSTEM" FOR EXPORT FINANCING. A PUBLIC TRADING COMPANY WILL KNOW THE LOCAL BUSINESS COMMUNITY AND THEIR NEEDS. IT WILL BE ABLE TO HELP THEM FIND BUYERS OVERSEAS FOR THEIR PRODUCTS, SHIP THEIR GOODS, OBTAIN CREDIT INFORMATION FOR THEM AND PREPARE THEIR DOCUMENTATION.

EXIMBANK CAN HELP PUBLIC TRADING COMPANIES BY OFFERING TRAINING SESSIONS ON THE "NUTS AND BOLTS" ASPECTS OF EXPORT FINANCING. WE ARE HELPING TO ARRANGE SUCH A SEMINAR TO BE HELD IN WASHINGTON ON NOVEMBER 9 AND 10 OF THIS YEAR. EXIMBANK CAN ALSO ASSIST PUBLIC TRADING COMPANIES BY PROVIDING GUARANTEES AND INSURANCE FOR THE INDIVIDUAL EXPORT TRANSACTIONS THEY FINANCE. AS WITH LARGER EXPORTERS AND BANKS, EXIMBANK CAN DEVISE PROGRAMS IN WHICH A PUBLIC TRADING COMPANY WOULD BE DELEGATED AUTHORITY TO COMMIT EXIMBANK WITHOUT HAVING TO EXAMINE EACH CASE ITSELF. EXIMBANK WOULD SIMPLY ESTABLISH GUIDELINES TO APPLY TO THE TYPES OF TRANSACTIONS FOR WHICH THE AUTHORITY COULD BE USED. THE PUBLIC TRADING COMPANY WOULD ACTUALLY DO THE ANALYSIS OF THE TRANSACTION AND WOULD ALSO HAVE TO SATISFY ITSELF ABOUT THE ABILITY OF THE EXPORTER TO PERFORM SINCE EXIMBANK WOULD NOT BE ABLE TO CHECK THE CREDITWORTHINESS AND ABILITY OF AN EXPORTER TO FULFILL HIS OBLIGATIONS.

RATIONALE FOR ASSISTING SMALLER BUSINESSES

THE IRONY OF THE INABILITY OF SMALLER BUSINESSES TO OBTAIN EXPORT FINANCING IS THAT THEY HOLD FUTURE PROMISE FOR MAINTAINING OUR COMPETITIVE POSITION INTERNATIONALLY. THERE ARE CASES WHERE THE PROSPECT OF DELAYED AND CONTINGENT RETURNS MAKE VENTURE CAPITAL MARKETS BALK, BUT WHERE LOANS TO DOMESTIC

PRODUCERS TO "LEAP FROG" TO THE NEXT PRODUCT GENERATION SHOULD BE MADE AVAILABLE BY THE PUBLIC SECTOR. FINANCING, IN THE FORM OF DIRECT FINANCING, GUARANTEES, INSURANCE AND EXPORT SERVICES, MUST BE DESIGNED TO ACCELERATE DEVELOPMENT IN EMERGING BUSINESSES, AND BY AND LARGE, THESE ARE SMALL COMPANIES TODAY.

ANOTHER VITAL REASON FOR GIVING THIS BUSINESS SEGMENT SPECIAL CONSIDERATION HAS TO DO WITH THE HIGHER EMPLOYMENT IMPACT OF INCREASING SMALL BUSINESS EXPORTS, RELATIVE TO OTHER MACROECONOMIC POLICY OPTIONS. COMPARED TO ALL SIZES OF BUSINESS, SMALL COMPANIES USE MORE WORKERS RELATIVE TO OUTPUT. OVER 2.7 MILLION JOBS WERE ADDED TO U.S. INDUSTRIES IN THE PERIOD 1979-81. SMALL BUSINESSES (LESS THAN 500 EMPLOYEES) CONTRIBUTE 60% OF THIS GROWTH. THERE IS NO QUESTION THAT THIS IS THE SECTOR FOR GROWTH THAT IS UNABLE TO COMPETE WITH INTERNATIONAL COMPETITORS WHO HAVE ACCESS TO GOVERNMENT SUPPORTED FINANCING. A NEW STUDY BY ECONOMISTS GARY CLYDE HUFBAUER OF THE INSTITUTE FOR INTERNATIONAL ECONOMICS, AND JOANNA S. ERB FROM THE TREASURY DEPARTMENT FOUND THAT THE ROLE GOVERNMENT CREDIT AGENCIES PLAY IN MANUFACTURED EXPORTS IS ONLY 12.8% IN THE U.S. COMPARED TO 25% IN FRANCE, 42% IN JAPAN AND 50% IN BRITAIN (1980). WE BELIEVE THAT FINANCING, COUPLED WITH THE INTEGRATED RANGE OF SERVICES AVAILABLE IN OUR TRADING COMPANY, WILL ENABLE THESE COMPANIES TO PENETRATE OVERSEAS MARKETS. THUS OUR FOUNDATION WORK IN DEVELOPING MARKETING STRATEGIES FOR TARETED INDUSTRIES AND MARKETS WILL ENABLE NEW YORK AND NEW JERSEY TO PROVIDE THE KINDS OF SERVICE WHICH WILL HELP EXISTING INDUSTRY AND EVENTUALLY SERVE AS A MAGNET FOR NEW INDUSTRY.

PUBLIC SECTOR ROLE

IN SUM, WE BELIEVE THE FEDERAL EXPORT TRADING COMPANY ACT OF 1982 WILL NOT BE FULLY REALIZED WITHOUT PUBLIC SECTOR INTERVENTION. ETCs ARE BEING FORMED BY LARGE COMPANIES WHICH ARE USING THEM -- AT LEAST IN THE BEGINNING -- AS EXPORT

OUTLETS FOR FIRMS WITH WHICH THEY ALREADY DO BUSINESS. THERE IS A REASON WHY SMALLER FIRMS AREN'T EMBRACED BY LARGER BANKS AND INSTITUTIONS -- PROFITABILITY. THE PERCEIVED MARGINS ARE SIMPLY TOO SLIM.

THERE IS A CLEAR NEED FOR PUBLIC TRADING COMPANIES TO FILL THE GAP, TO BE A LAUNCHING PAD, TO RAISE TRADING CONSCIOUSNESS, TO MAKE THE INVESTMENT IN HUMAN CAPITAL, TO INVEST IN OUR SMALL BUSINESSES. THE PORT AUTHORITY'S FLEDGING TRADING COMPANY HOLDS CONSIDERABLE PROMISE. AS FAR AS WE KNOW, MOST DEVELOPED, TRADING COMPANY IN THE U.S. STARTED AND MANAGED BY A <u>PUBLIC</u> AGENCY. THEREFORE, IT HAS A DIFFERENT BOTTOM LINE -- A BROADER AGENDA WHICH INCLUDES BEING A CATALYST FOR PRIVATE SECTOR GROWTH. WE HOPE TO SERVE THIS ROLE.

THANK YOU.