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PUBLIC HEARING

before

ASSEMBLY LABOR COMMITTEE

on

ASSEMBLY BILLS NO. 3135, 3136, 3137, 3138
and
ASSEMBLY RESOLUTION NO. 3014

(Export Trading Companies)

New Jersey State Library

Held:
April 6, 1983
Assembly Chamber
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Joseph D. Patero (Chairman)
Assemblyman Thomas F. Cowan
Assemblyman Gorge A. Rod

ALSO PRESENT:

Laurine Purola, Team Supervisor
Office of Legislative Services
Aide, Assembly Labor Committee

Mora McLean, Research Assistant
Office of Legislative Services

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ASSEMBLY, No. 3135

STATE OF NEW JERSEY

INTRODUCED FEBRUARY 28, 1983

By Assemblymen PATERO, BOCCHINI, MAZUR, PELLECCHIA, Assemblywoman COSTA, Assemblymen GIRGENTI, COWAN, LITTELL and ROD

AN ACT to permit counties and certain municipalities to establish export trading authorities.

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

1. The Legislature finds and declares that:

a. Many of this State's counties and municipalities have devoted a substantial portion of their resources to economic development and the creation of jobs;

b. Export trade represents a means by which the productive capacity of existing industry may be enhanced and expanded;

c. Several of the State's counties and municipalities have port facilities which provide an excellent base for the development of a strong export trade;

d. Many small and medium sized businesses lack the expertise and a stable source of financing necessary to develop and carry on export trade;

e. The federal government, through passage of the "Export Trading Company Act of 1982", Pub. L. 97-290, has facilitated the combining of the resources of small businesses, exempt from the restraints imposed by the provisions of the anti-trust laws, to enter foreign markets;

f. By the terms of the federal act, counties and municipalities may form export trading companies to facilitate the development of export trade by the businesses and industries within their juris-

New Jersey State Library

diction, to provide information, technical assistance, and a stable source of financing;

g. The Legislature therefore determines that the formation of export trade authorities by counties and municipalities is an excellent means of bringing about economic growth and hereby provides the means by which these authorities may be established.

2. For the purposes of this act;

a. "Authority" means the county or municipal export trading authority established pursuant to this act;

b. "Board" means the board of directors of the county or municipal export trading authority established pursuant to this act:

c. "Executive director" means the executive director of the county or municipal export trading authority established pursuant to this act;

d. "Export trade" means trade or commerce in goods or services, a majority of the export value of which is produced in New Jersey, which are exported, or in the course of being exported, from New Jersey through any port in the United States direct to any foreign country;

e. "Municipality" means a municipality with a population of 75,000 or greater.

f. "Services" includes, but is not limited to, accounting, amusement, architectural, automatic data processing, business, communications, franchising, licensing, consulting, engineering, financial, insurance, legal, management, repair, tourism, training, and transportation services.

3. a. The governing body of any county or municipality may by ordinance, or resolution if appropriate to the county's form of government, create a public body corporate and politic under the provisions of this act, which shall be known as the "... Export Trading Authority," with the name of the county or municipality inserted, which shall be an export trading company within the meaning of the federal "Export Trading Company Act of 1982," Pub. L. 97-290. The authority shall be governed by a board of directors of five members who shall be appointed by the mayor of the municipality or the director of the county board of freeholders or the chief executive officer in counties that have adopted this "Optional County Charter Law" P. L. 1972, c. 154 (C. 40:41A–1 et seq.) as provided in this act. A certified copy of each ordinance for the creation of an export trading authority shall be filed in the office of the Secretary of State, in the office of the Division of Local Government Services in the Department of Community Affairs, and in the office of the clerk of the governing body of the county or municipality creating the export trading authority.

b. After the filing of the ordinance pursuant to subsection a. of this section, the ordinance or resolution shall be published in a newspaper published or circulating in the district proposed to be served by the export trading authority. This public notice shall also contain the date of the adoption of the ordinance or resolution, the date of the first publication of the notice, the places where the ordinance or resolution has been filed for public inspection, and a notice that any action or proceeding of any kind or nature in any court questioning the validity of the creation or establishment of the county or municipal export trading authority shall be commenced within 20 days after the first publication of the notice. If no action or proceeding questioning the validity of the creation or establishment of the export trading authority is commenced or instituted within 20 days after the first publication of the notice any proceeding shall be forever barred.

4. a. After the 20-day period established by subsection b. of section 3. of this act has elapsed, the mayor, the director of the board of freeholders, or the chief executive officer of the county, as the case may be, shall appoint five members to serve on the board of directors. Initially, one member shall be appointed for a term of one year, two members shall be appointed for a term of two years, and two members shall be appointed for a term of three years. Thereafter, all members shall serve for three year terms. Each member shall hold office for the term of his appointment and until his successor has been appointed and qualified. Any vacancy in the membership occurring other than by expiration of term shall be filled in the same manner as the original appointment but for the unexpired term only.

b. The mayor, director of the board of freeholders, or chief county executive, as the case may be, shall appoint a chairman of the authority. The members of the board shall elect a vice chairman. The authority shall employ an executive director who shall be its secretary and chief executive officer. A majority of the members of the board shall constitute a quorum. Any action may be taken by the affirmative vote of a majority of the quorum.

The members of the authority shall serve without compensation, but shall be reimbursed by the authority for their actual expenses.

c. A copy of the minutes of every meeting of the board shall be delivered to the mayor, director of the board of freeholders, or chief county executive, as the case may be. On or before March 31 of each year, the authority shall make an annual report of its activities in the preceding calendar year to the mayor, director of the board of freeholders, or chief county executive, as the case may be, and to

the Division of Local Government Services in the Department of Community Affairs. The report shall set forth a complete operating and financial statement covering the authority's operations during the preceding year. The board shall cause an audit to be made at least once in each year by certified public accountants. A copy of the audit shall be filed with the mayor, director of the board of freeholders, or chief county executive, as the case may be.

5. The authority shall have the power:

a. To adopt bylaws for the regulation of its affairs and the conduct of its business;

b. To sue or be sued in the name of the authority; except that a judgment against the authority shall not create any direct liability against its board of directors, its employees, or its agents;

c. To indemnify its directors, employees and agents for any claims, suits, costs of investigations, costs of defense, settlements, or judgments against them on account of an act or omission in the scope of a director's duties, or an employee's or agent's employment, but the authority shall refuse to indemnify if it determines that the act or failure to act was because of actual fraud, willful misconduct, or actual malice;

d. To enter into any contracts necessary or proper to carry out the provisions and purposes of this act;

e. To establish and maintain any reserve or insurance funds as may be necessary to carry out the provisions of this act;

f. To sell, convey, lease, purchase, or otherwise acquire real or personal property to carry out its functions under this act;

g. To borrow money, to issue bonds of the authority and to provide for the rights of holders thereof as provided in this act;

h. Subject to any agreements with bondholders or noteholders, to purchase bonds or notes of the authority out of any funds or money of the authority available therefor, and to hold, cancel, or resell these bonds or notes;

i. To contract for and to accept any gifts, grants, or loans of funds or financial or other aid in any form from the United States of America or any agency or instrumentality thereof, or from the State or any agency, instrumentality, or political subdivision thereof, or from any other source;

j. To export directly or to assist in the export of products and services produced in New Jersey;

k. In connection with any application for assistance under this act, to require and collect any fees and charges as the authority deems reasonable;

l. Subject to any agreement with bondholders or noteholders, to

invest moneys of the authority not required for immediate use, including proceeds from the sale of bonds and notes, in any obligations, securities, and other investments that the authority deems prudent;

m. To purchase, acquire and take assignments of notes, mortgages, banker's acceptances, receivables of exporters, and other forms of security and evidence of indebtedness;

n. To extend credit or make loans or loan guarantees to any person in connection with export trade, upon terms established by the board and in accordance with the rules and regulations of the authority, to establish underwriting standards for the extension of credit or a loan guarantee by the authority pursuant to the provisions of this act, and to require political and commercial risk insurance in connection therewith;

o. To take any security it deems necessary in connection with any direct loan or any guaranteed loan;

p. To apply for a certificate of review from the United States Secretary of Commerce pursuant to the provisions of Title III of the Export Trading Company Act of 1982, Pub. L. 97-290 (15 U. S. C. § 4011 et seq.);

q. To participate in and conduct marketing studies and foreign trade missions as may be necessary to effectuate the provisions of this act;

r. To appoint and employ any persons as may be necessary, including accountants, attorneys, persons who are fluent in foreign languages, financial advisors, and any other individuals with expertise in foreign trade or marketing as the authority may require, and to determine their qualifications, terms of office, duties and compensation without regard to the provisions of Title 11 of the Revised Statutes;

s. To cooperate with, and utilize the resources of the Division of International Trade in the Department of Commerce and Economic Development and the resources of the United States Department of Commerce;

t. To promulgate rules and regulations as may be necessary to effectuate the purposes of this act.

6. Any natural person, association, partnership, or corporation may apply to the authority for assistance in establishing or maintaining export trade. If the applicant meets the standards for assistance established by the authority pursuant to this act, the authority may:

a. Provide assistance in researching foreign markets;

b. Provide assistance in advertising, marketing, and participating in foreign trade fairs;

c. Provide assistance in making bids to prospective foreign buyers;

d. Provide legal assistance in arranging export trade transactions;

e. Provide assistance in the pricing of goods to be exported, arranging the terms of sale, and facilitating foreign exchange transactions;

f. Arrange or guarantee commercial bank loans, make loans to state or federally chartered commercial banks for the purpose of financing export trade, or make direct loans to qualified exporters;

g. Obtain, or assist in obtaining, bankers' acceptances pursuant to Section 207 of Title II of the Export Trading Company Act of 1982, Pub. L. 97-290 (12 U. S. C. § 372);

h. Purchase the receivables of exporters, or arrange purchases through independent factoring houses;

i. Assist in arranging for the packing, transportation and shipment of goods;

j. Assist in preparing appropriate shipping and collection documents;

k. Assist in obtaining appropriate insurance, including ocean marine and export credit insurance, provided through private carriers or, at the discretion of the authority, through an umbrella or blanket policy obtained by the authority;

l. Assist in the processing of foreign orders to and for exporters and foreign purchasers;

m. Assist in arranging joint ventures with another exporter or with a foreign entity;

n. Assist in negotiating license agreements with foreign firms;

o. Arrange financing through the Export-Import Bank of the United States;

p. Provide translating, interpreting, or other services to facilitate communication between exporters and foreign purchasers;

q. Provide other services which it deems necessary to effectuate the purposes of this act.

7. Any application for assistance under this act shall be submitted to the executive director and shall be reviewed and approved by the board, which shall approve the application if:

a. The goods or services to be exported come within the definition of "export trade" pursuant to section 2 of this act; and

b. The applicant to be assisted is financially sound and is deemed to be capable of maintaining or expanding its productive capacity to support foreign trade; and

c. The products or services to be exported have a reasonable chance of finding markets abroad; and

d. The assistance will tend to maintain or provide employment for residents of the county or municipality.

The application shall be made in a form prescribed by the board by regulation.

8. The authority shall, by resolution of the board, have the power to incur indebtedness, borrow money and issue bonds to finance export trade and provide services to exporters pursuant to the provisions of this act. Every issue of its bonds shall be general obligations of the authority payable from any revenues of the authority, subject only to agreements with the holders of particular bonds or notes pledging any particular revenues or moneys. The bonds may be issued in one or more series and shall bear a date or dates, mature at a time or times not exceeding 40 years, bear interest at a rate or rates, be in a form, either coupon or registered, carry any conversion or registration privileges, have any rank or priority, be executed in such manner, be payable from a source in a medium of payment at a place or places inside or outside the State, and be subject to any terms of redemption, with or without premium, as the resolution may provide. Bonds of the authority may be sold by the authority at a public or private sale at a price or prices as the authority may determine.

9. The export trading authority established pursuant to this act shall cause a copy of any bond resolution adopted by it to be filed for public inspection in its office and in the office of the Secretary of State. After filing with the Secretary of State, the authority shall publish a notice, in a newspaper or newspapers published in the area to be served by the authority, which states that the bond resolution has been adopted by the authority, the date of adoption, and the places, if any, where the bond resolution has been filed for public inspection. The notice shall also state that any action or proceeding of any kind or nature in any court questioning the validity or proper authorization of bonds shall be commenced within 30 days of the publication of the notice. If no action or proceeding questioning the validity or proper authorization of bonds shall be commenced or instituted within 30 days after publication of the notice any action with respect thereto shall be forever barred.

10. Bonds and notes of the authority issued under the provisions of this act shall not be in any way a debt or liability of the State or of any political subdivision thereof or be or constitute a pledge of the faith and credit of the State or of any political subdivision thereof but all bonds and notes, unless funded or refunded by the

bonds or notes of the authority, shall be payable solely from revenues or funds pledged or available for their payment as authorized in this act. Each bond and note shall contain on its face a statement to the effect that the authority is obligated to pay the principal thereof or the interest thereon only from revenues or funds of the authority and that neither the State nor any political subdivision thereof is obligated to pay the principal or interest and that neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or the interest on the bonds or notes.

11. Any bond or other obligation issued by the authority pursuant to this act shall be fully negotiable within the meaning and for all purposes of Title 12A of the New Jersey Statutes, and each holder of a bond or other obligation or any coupon appurtenant thereto, by accepting the bond or coupon shall be conclusively deemed to have agreed that the bond, obligation or coupon is and shall be fully negotiable within the meaning and for the purposes of Title 12A.

12. Any bonds issued by the authority may be additionally secured by a pledge of any grant or contributions from the federal government, the county or municipality, or a pledge of any income or revenues of the authority. This act shall be complete authority for the issuance of bonds by the county or municipal export trading authority, and the provisions of any other law shall not apply to the issuance of these bonds.

13. In order to secure the payment of its bonds and in addition to its other powers, the authority shall have power by resolution to convenant and agree with the several holders of the bonds, as to:

a. The custody, security, use, expenditure or application of the proceeds of the bonds;

b. Payment of the principal of or interest on the bonds, or any other obligations, and the sources and methods thereof, the rank or priority of any bonds or obligations as to any lien or security, or the acceleration of the maturity of any bonds or obligations;

c. The use and disposition of any moneys of the authority, including all revenues or other moneys derived or to be derived from any of the authority's activities;

d. Pledging, setting aside, depositing or placing in trust all or any part of the revenues or other moneys of the authority to secure the payment of the principal or interest on the bonds or any other obligations and the powers and duties of any trustees with regard thereto;

e. The setting aside out of the revenues or other moneys of the authority of reserves and sinking funds, and the source, custody, security, regulation, application and disposition thereof;

f. The rents, fees or other charges for any services of the authority, and the fixing, establishment, collection and enforcement of the same;

g. Limitation on the issuance of additional bonds or any other obligations or on the incurrence of indebtedness of the authority;

h. Vesting in a trustee or trustees, fiscal or escrow agent or agents within or without the State any property, rights, powers and duties in trust as the authority may determine and limiting the rights, duties and powers of the trustee or agent;

i. Payment of costs or expenses incident to the enforcement of the bonds or of the provisions of the resolution or of any covenant or contract with the holders of the bonds;

j. The procedure, if any, by which the terms of any covenant or contract with, or duty to, the holders of bonds may be amended or abrogated, the amount of bonds the holders of which must consent thereto, and the manner in which consent may be given or evidenced; or

k. Any other matter or course of conduct which, by recital in the resolution, is declared to further secure the payment of the principal of or interest on the bonds.

All such provisions of the resolution and all such covenants and agreements shall constitute valid and legally-binding contracts between the authority and the several holders of the bonds, regardless of the time of issuance of the bonds, and shall be enforceable by any holder or holders by appropriate action, suit or proceeding in any court of competent jurisdiction, or by proceeding in lieu of prerogative writ.

14. No member of the board, officer, employee or agent of the authority shall have an interest, either directly or indirectly, in any project, transaction or business activity in which the authority is a party.

15. Any member of the board of an export trading authority established pursuant to this act may be removed by the governing body of the county or municipality for incapacity, neglect of duty, or misconduct in office, and after he has been given a copy of the charges against him and afforded a hearing, in person or by counsel, but not sooner than 10 days after receiving a copy of the charges.

16. All expenses incurred in carrying out the provisions of this act shall be payable solely from revenues or funds provided or to

be provided under the provisions of this act and nothing in the act shall be construed to authorize the authority to incur any indebtedness or liability on behalf of or payable by the State or any political subdivision thereof.

17. Notwithstanding the provisions of any other law to the contrary, the State, its political subdivisions, agencies and instrumentalities, their officers, boards, commissioners, departments, any trust company, state or federally chartered bank, savings bank, savings and loan association, investment companies, insurance company, all executors, administrators, guardians and fiduciaries, and all other persons whoever who now are or may hereafter be authorized to invest in bonds or other obligations of the State, may legally invest any funds belonging to them or within their control in any bonds or notes issued by the authority pursuant to the provisions of this act; and these bonds and notes are made securities which may properly and legally be deposited with and received by any State or municipal officers or agency of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may thereafter be authorized by law.

18. The governing body of any county or municipality which has created an export trading authority may, by ordinance or resolution where appropriate, dissolve the export trading authority if:

a. Either the members of the authority have not been appointed or the authority by resolution has consented to its dissolution, and

b. The authority has no debts or obligations outstanding.

A copy of the ordinance or resolution for the dissolution of a county or municipal export trading authority, certified by the appropriate officer of the county or municipality which has adopted the ordinance or resolution shall be filed in the office of the Secretary of State. Upon filing the ordinance or resolution with the Secretary of State and upon proof that the authority has no debts outstanding, the authority shall be deemed to be dissolved.

19. This act shall take effect immediately.

STATEMENT

This bill permits counties and municipalities with a population of 75,000 or over to create export trading authorities, which would be export trading companies within the meaning of the federal Export Trading Company Act of 1982.

The authority would be a consortium of businesses in the jurisdiction of the county or municipality who come together for the purpose of developing an export trade. The authority would pro-

vide various services, including fixed rate financing, to enable smaller businesses to become active in seeking out foreign markets; without the assistance, many businesses are precluded from entering an export trade because of the costs and special kind of expertise which is required. Services which could be performed by the authority include market research, the facilitating of foreign exchange transactions, assistance in arranging for transportation and insurance, assistance in preparing necessary documentation, assistance in arranging joint ventures and licensing agreements, and translation and interpreting services.

The authority would be authorized to issue bonds. Revenues would be derived from fees and charges paid by participating clients, and from profits on loans.

Export trade is essential to New Jersey's economy because of the opportunity it provides for the expansion of the manufacturing sector and the creation of new jobs. Wharton Econometrics estimates that 50 new jobs are created for each $1 million in exports.

ASSEMBLY LABOR COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3135

STATE OF NEW JERSEY

DATED: APRIL 11, 1983

This bill, similar in scope to Assembly Bill No. 3136, would permit counties and municipalities with populations exceeding 75,000 to establish export trading companies for use as a tool in economic development and as a means of assisting the development of New Jersey port facilities. The local export trading companies would be permitted to cooperate with and use the assistance of the State export trading authority established by Assembly Bill No. 3136 in carrying out their activities.

The county and municipal export trading authorities would be export trading companies within the meaning of the federal Export Trading Company Act of 1982. The authorities would be permitted to provide a full range of export services for their clients, including documentation services, insurance services, legal services, assistance in obtaining financing, or providing direct financing.

This bill is part of a package of bills which is designed to promote export trade as a means of encouraging economic growth, attracting new business to the State, and creating new jobs.

ASSEMBLY, No. 3136

STATE OF NEW JERSEY

INTRODUCED FEBRUARY 28, 1983

By Assemblymen PATERO, BOCCHINI, MAZUR, PELLECCHIA, Assemblywoman COSTA, Assemblymen GIRGENTI, COWAN, LITTELL and ROD

AN ACT to establish the New Jersey State Export Trading Authority.

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

1. The Legislature finds and declares that:

a. The United States has significantly fallen behind other industrialized nations with respect to the volume of its exports in relationship to its gross national product;

b. Export trade has a material impact in bringing about economic expansion and job creation, and has a particularly salutary effect upon older manufacturing industries which have saturated their domestic markets and which produce goods which may be technologically outdated for the domestic market, but for which there are markets abroad in less developed countries;

c. Many small domestic industries have the potential for great expansion through the development of export trade, but lack the information, expertise, and fixed-rate financing to develop an export trade program;

d. The federal government, through passage of the Export Trading Company Act of 1982, Pub. L. 97-290, has facilitated the combining of the resources of small businesses, exempt from the restraints imposed by the provisions of the antitrust laws, to enter foreign markets;

e. The State of New Jersey, which is eligible under the terms

of the federal law to establish an export trading company, is in a unique position to assist small and medium sized New Jersey businesses in establishing and conducting foreign trade operations and to provide a stable source of export financing through the selling of bonds, which will accrue to the benefit of all of the people of this State through the development of a stronger State economy and increased State revenues.

2. For the purposes of this act:

a. "Authority" means the New Jersey State Export Trading Authority established pursuant to this act;

b. "Board" means the board of directors of the New Jersey State Export Trading Authority;

c. "Executive director" means the executive director of the New Jersey State Export Trading Authority;

d. "Export trade" means trade or commerce in goods or services, a majority of the export value of which is produced in New Jersey, which are exported, or in the course of being exported, from New Jersey through any port in the United States direct to any foreign country;

e. "Services" includes, but is not limited to, accounting, amusement, architectural, automatic data processing, business, communications, franchising and licensing, consulting, engineering, financial, insurance, legal, management, repair, tourism, training, and transportation services.

3. a. There is established, within the Department of Commerce and Economic Development, the New Jersey State Export Trading Authority, which shall be an export trading company within the meaning of the federal Export Trading Company Act of 1982, Pub. L. 97-290. The purpose of the authority shall be to assist New Jersey businesses in the development and maintenance of an export trade. The board of directors of the authority shall consist of the Commissioner of Commerce and Economic Development, the Commissioner of Banking, the Commissioner of Insurance, and the State Treasurer, who shall be members ex officio, and five members appointed by the Governor with the advice and consent of the Senate. At least three of the five members appointed by the Governor shall have experience in foreign trade or finance. Initially the Governor shall appoint one member for a term of one year, two members for a term of two years, and two members for a term of three years. Thereafter, all members appointed by the Governor shall serve for three year terms. Each member shall hold office for the term of his appointment and until his successor has been appointed and qualified. Any vacancy in the membership occurring

other than by expiration of term shall be filled in the same manner as the original appointment but for the unexpired term only.

b. The Commissioner of Commerce and Economic Development shall be the chairman of the authority. The members of the board shall elect a vice chairman. The authority shall employ an executive director who shall be its secretary and chief executive officer. A majority of the members of the board shall constitute a quorum. Any action may be taken by the affirmative vote of a majority of the quorum.

c. The members of the board shall serve without compensation, but shall be reimbursed by the authority for their actual expenses. No officer or employee of the State shall be deemed to have forfeited or shall forfeit his office or employment or any benefits or emoluments by reason of his acceptance of the office of ex officio member of the authority or by his services to the authority.

d. A copy of the minutes of every meeting of the board shall be delivered to the Governor. On or before March 31 of each year, the authority shall make an annual report of its activities in the preceding calendar year to the Governor and the Legislature. The report shall set forth a complete operating and financial statement covering the authority's operations during the preceding year. The board shall cause an audit to be made at least once in each year by certified public accountants. A copy of the audit shall be filed with the State Treasurer.

4. The authority shall have the power:

a. To adopt bylaws for the regulation of its affairs and the conduct of its business;

b. To sue or be sued in the name of the authority; except that a judgment against the authority shall not create any direct liability against its board of directors, its employees, or its agents;

c. To indemnify its directors, employees and agents for any claims, suits, costs of investigations, costs of defense, settlements, or judgments against them on account of an act or omission in the scope of a director's duties, or an employee's or agent's employment, but the authority shall refuse to indemnify if it determines that the act or failure to act was because of actual fraud, willful misconduct, or actual malice;

d. To enter into any contracts necessary or proper to carry out the provisions and purposes of this act;

e. To establish and maintain any reserve or insurance funds as may be necessary to carry out the provisions of this act;

f. To sell, convey, lease, purchase, or otherwise acquire real or personal property to carry out its functions under the act;

g. To borrow money, to issue bonds of the authority and to provide for the rights of holders thereof as provided in this act;

h. Subject to any agreements with bondholders or noteholders, to purchase bonds or notes of the authority out of any funds or money of the authority available therefor and to hold, cancel, or resell these bonds or notes;

i. To contract for and to accept any gifts, grants, or loans of funds or financial or other aid in any form from the United States of America or any agency or instrumentality thereof, or from the State or any agency, instrumentality, or political subdivision thereof, or from any other source;

j. To export directly or to assist in the export of products and services produced in New Jersey;

k. In connection with any application for assistance under this act, to require and collect any fees and charges as the authority deems reasonable;

l. Subject to any agreement with bondholders or noteholders, to invest moneys of the authority not required for immediate use, including proceeds from the sale of bonds and notes, in any obligations, securities, and other investments that the authority deems prudent;

m. To purchase, acquire and take assignments of notes, mortgages, banker's acceptances, receivables of exporters, and other forms of security and evidence of indebtedness;

n. To extend credit or make loans or loan guarantees to any person in connection with export trade, upon terms established by the board and in accordance with the rules and regulations of the authority, to establish underwriting standards for the extension of credit or a loan guarantee by the authority pursuant to the provisions of this act, and to require political and commercial risk insurance in connection therewith;

o. To take any security it deems necessary in connection with any direct loan or any guaranteed loan;

p. To apply for a certificate of review from the United States Secretary of Commerce pursuant to the provisions of Title III of the Export Trading Company Act of 1982, Pub.L. 97-290 (15 U.S.C. § 4011 et seq.);

q. To participate in and conduct marketing studies and foreign trade missions as may be necessary to effectuate the provisions of this act;

r. To appoint and employ any persons as may be necessary, including accountants, attorneys, persons who are fluent in foreign languages, financial advisors, and any other individuals with ex-

pertise in foreign trade or marketing as the authority may require, and to determine their qualifications, terms of office, duties and compensation without regard to the provisions of Title 11 of the Revised Statutes;

s. To cooperate with, and utilize the resources of the Division of International Trade in the Department of Commerce and Economic Development and the resources of the United States Department of Commerce.

t. To promulgate rules and regulations as may be necessary to effectuate the purposes of this act.

5. Any natural person, association, partnership, or corporation may apply to the authority for assistance in establishing or maintaining export trade. If the applicant meets the standards for assistance established by the authority pursuant to this act, the authority may:

a. Provide assistance in researching foreign markets;

b. Provide assistance in advertising, marketing, and participating in foreign trade fairs;

c. Provide assistance in making bids to prospective foreign buyers;

d. Provide legal assistance in arranging export trade transactions;

e. Provide assistance in the pricing of goods to be exported, arranging the terms of sale, and facilitating foreign exchange transactions;

f. Arrange or guarantee commercial bank loans, make loans to state or federally chartered commercial banks for the purpose of financing export trade, or make direct loans to qualified exporters;

g. Obtain, or assist in obtaining, bankers' acceptances pursuant to section 207 of Title II of the Export Trading Company Act of 1982, Pub. L. 97-290 (12 U.S.C. § 372);

h. Purchase the receivables of exporters, or arrange purchase through independent factoring houses;

i. Assist in arranging for the packing, transportation and shipment of goods;

j. Assist in preparing appropriate shipping and collection documents;

k. Assist in obtaining appropriate insurance, including ocean marine and export credit insurance, provided through private carriers or, at the discretion of the authority, through an umbrella or blanket policy obtained by the authority;

l. Assist in the processing of foreign orders to and for exporters and foreign purchasers;

m. Assist in arranging joint ventures with another exporter or with a foreign entity;

n. Assist in negotiating license agreements with foreign firms;

o. Arrange financing through the Export-Import Bank of the United States;

p. Provide translating, interpreting, or other services to facilitate communication between exporters and foreign purchasers;

q. Provide other services which it deems necessary to effectuate the purposes of this act.

6. Any application for assistance under this act shall be submitted to the executive director and shall be reviewed and approved by the board, which shall approve the application if:

a. The goods or services to be exported come within the definition of "export trade" pursuant to section 2 of this act; and

b. The applicant to be assisted is financially sound and is deemed to be capable of maintaining or expanding its productive capacity to support foreign trade; and

c. The products or services to be exported have a reasonable chance of finding markets abroad; and

d. The assistance will tend to maintain or provide employment for residents of this State.

The application shall be made in a form prescribed by the board by regulation.

7. The authority shall, by resolution of the board, have the power to incur indebtedness, borrow money and issue bonds to finance export trade and provide services to exporters pursuant to the provisions of this act. Every issue of its bonds shall be general obligations of the authority payable from any revenues of the authority, subject only to agreements with the holders of particular bonds or notes pledging any particular revenues or moneys. The bonds may be issued in one or more series and shall bear a date or dates, mature at a time or times not exceeding 40 years, bear interest at a rate or rates, be in a form, either coupon or registered, carry any conversion or registration privileges, have any rank or priority, be executed in such manner, be payable from a source in a medium of payment at a place or places inside or outside the State, and be subject to any terms of redemption, with or without premium, as the resolution may provide. Bonds of the authority may be sold by the authority at a public or private sale at a price or prices as the authority may determine.

8. Bonds and notes of the authority issued under the provisions of this act shall not be in any way a debt or liability of the State or of any political subdivision thereof or be or constitute a pledge

of the faith and credit of the State or of any political subdivision thereof but all bonds and notes, unless funded or refunded by the bonds or notes of the authority, shall be payable solely from revenues or funds pledged or available for their payment as authorized in the act. Each bond and note shall contain on its face a statement to the effect that the authority is obligated to pay the principal thereof or the interest thereon only from revenues or funds of the authority and that neither the State nor any political subdivision thereof is obligated to pay the principal or interest and that neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or the interest on the bonds or notes.

9. Any bond or other obligation issued by the authority pursuant to this act shall be fully negotiable, within the meaning and for all purposes of Title 12A of the New Jersey Statutes, and each holder of a bond or other obligation or any coupon appurtenant thereto, by accepting the bond or coupon shall be conclusively deemed to have agreed that the bond, obligation or coupon is and shall be fully negotiable within the meaning and for the purposes of Title 12A.

10. In order to secure the payment of its bonds and in addition to its other powers, the authority shall have power by resolution covenant and agree with the several holders of the bonds, as to:

a. The custody, security, use, expenditure or application of the proceeds of the bonds;

b. Payment of the principal of or interest on the bonds, or any other obligations, and the sources and methods thereof, the rank or priority of any bonds or obligations as to any lien or security, or the acceleration of the maturity of any bonds or obligations;

c. The use and disposition of any moneys of the authority, including all revenues or other moneys derived or to be derived from any of the authority's activities;

d. Pledging, setting aside, depositing or placing in trust all or any part of the revenues or other moneys of the authority to secure the payment of the principal or interest on the bonds or any other obligations and the powers and duties of any trustees with regard thereto;

e. The setting aside out of the revenues or other moneys of the authority of reserves and sinking funds, and the source, custody, security, regulation, application and disposition thereof;

f. The rents, fees or other charges for any services of the authority, and the fixing, establishment, collection and enforcement of the same;

g. Limitation on the issuance of additional bonds or any other obligations or on the incurrence of indebtedness of the authority;

h. Vesting in a trustee or trustees, fiscal or escrow agent or agents within or without the State such property, rights, powers and duties in trust as the authority may determine and limiting the rights, duties and powers of the trustee or agent;

i. Payment of costs or expenses incident to the enforcement of the bonds or of the provisions of the resolution or of any covenant or contract with the holders of the bonds;

j. The procedure, if any, by which the terms of any covenant or contract with, or duty to, the holders of bonds may be amended or abrogated, the amount of bonds the holders of which must consent thereto, and the manner in which consent may be given or evidenced; or

k. Any other matter or course of conduct which, by recital in the resolution, is declared to further secure the payment of the principal of or interest on the bonds.

All such provisions of the resolution and all such covenants and agreements shall constitute valid and legally-binding contracts between the authority and the several holders of the bonds, regardless of the time of issuance of the bonds, and shall be enforceable by any holder or holders by appropriate action, suit or proceeding in any court of competent jurisdiction, or by proceeding in lieu of prerogative writ.

11. No member of the board, officer, employee or agent of the authority shall have an interest, either directly or indirectly, in any project, transaction or business activity in which the authority is a party.

12. All expenses incurring in carrying out the provisions of this act shall be payable solely from revenues or funds provided or to be provided under the provisions of this act and nothing in the act shall be construed to authorize the authority to incur any indebtedness or liability on behalf of or payable by the State or any political subdivision thereof.

13. Notwithstanding the provisions of any other law to the contrary, the State, its political subdivisions, agencies and instrumentalities, their officers, boards, commissioners, departments, any trust company, state or federally chartered bank, savings bank, savings and loan association, investment companies, insurance company, all executors, administrators, guardians and fiduciaries, and all other persons whoever who now are or may hereafter be authorized to invest in bonds or other obligations of the State, may legally invest any funds belonging to them or within their control

in any bonds or notes issued by the authority pursuant to the provisions of this act; and these bonds and notes are made securities which may properly and legally be deposited with and received by any State or municipal officers or agency of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may thereafter be authorized by law.

14. There is appropriated $500,000.00 to the authority to effectuate the purposes of this act, which shall be repaid by the authority to the State Treasurer from the proceeds of its activities in five annual installments, beginning with the second year following enactment.

15. This act shall take effect immediately.

STATEMENT

This bill establishes a New Jersey State Export Trading Authority, which would be an export trading company under the provisions of the Federal Export Trading Company Act of 1982.

The authority would be a consortium of New Jersey businesses who would come together for the purpose of developing an export trade. The export trading authority would provide various services, including fixed rate financing, to enable smaller businesses to become active in seeking out foreign markets; without such assistance, many businesses are precluded from entering into an export trade because of the costs and the special kind of expertise which is required. Services which could be provided by the authority include research, the facilitating of foreign exchange transactions, assistance in arranging for transportation and insurance, assistance in preparing necessary documentation, assistance in arranging joint ventures and licensing agreements, and translation and interpreting services.

The authority would be authorized to issue bonds. Revenues would be derived from fees and charges paid by participating clients, and from profits on loans.

Export trade is essential to New Jersey's economy because of the opportunity it provides for the expansion of the manufacturing sector and for the creation of new jobs. Wharton Econometrics estimates that 50 new jobs are created for each $1 million in exports.

ASSEMBLY LABOR COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3136

STATE OF NEW JERSEY

DATED: APRIL 11, 1983

The Assembly Labor Committee favorably reports this legislation, which represents a means of promoting economic development, attracting new businesses to the State, and creating new jobs.

This bill creates an Export Trading Authority within the Department of Commerce and Economic Development; the authority would be an export trading company within the meaning of the federal Export Trading Company Act of 1982. The authority, which would be governed by an appointed board of directors, would provide a full range of export services to its clients, who would in turn pay a fee for the use of the services.

The Export Trading Authority, working in cooperation with the Division of International Trade, would identify foreign markets for New Jersey products and would assist New Jersey businesses in developing these markets and in selling their goods abroad. The range of export services offered by the authority would include assistance in making bids to prospective foreign buyers, assistance in the pricing of goods to be sold abroad, and assistance in arranging the terms of sale and in facilitating foreign exchange transactions. The authority would also play a role in the financing of export trade. It could provide direct financing from the proceeds of its bonds, or it could arrange or guarantee loans through commercial banks. It would be empowered to provide its client businesses with support services such as legal assistance and translation services. In addition, the authority could offer assistance in arranging for the packing, transportation, and shipment of goods, and assistance in obtaining insurance required for export trade, such as ocean marine insurance and credit insurance.

Businesses would be eligible for assistance by the authority if the applying business is financially sound and capable of developing and maintaining foreign trade, if the products or services to be sold have a reasonable chance of finding markets abroad, if a majority of the export value of the goods to be exported is produced in New Jersey, and if the assistance offered by the authority would tend to maintain or provide employment for residents of this State.

The authority is designed to provide export services which might be otherwise unavailable to smaller businesses because of the expense involved in establishing an export trade. By providing services to a number of clients, the authority could offer these services on a per unit basis more inexpensively than the services could otherwise be obtained.

Export trade is universally recognized as a highly effective means of promoting economic growth. The United States, however, has fallen behind other industrialized nations in its foreign trade. During the past two decades, the United States' share of world exports dropped from 18% to 12%. Exports account for only 8.2% of the United States' gross national product, which is the lowest percentage of any industrialized nation. Of 250,000 businesses in the United States, only 8% export goods on a regular basis; only 100 companies account for half of all exports of United States manufactured goods. Exports provide a means of expansion for manufacturing firms even though domestic markets may be saturated. In addition, exports provide an effective means of extending product life cycles; products which may be outdated or obsolete in the United States often find ready markets abroad in less developed nations. Exports often mean higher profits; because export trade represents enhancement of production, profit margins are high because increase in output of existing product lines carries little additional cost to manufacturers. Finally, export trade represents a means of job creation. The United States Export-Import Bank estimates that 30 new jobs are created for every $1 million in goods which are exported, while Wharton Econometrics estimates that 50 new jobs are created for every $1 million in exports.

In New Jersey, which ranks 10th in the nation with respect to exports, 12.2% of its manufactured goods are exported, which means that some 104,000 jobs are export-related. New Jersey's rate of growth in export sales lagged behind the United States and many other states. Direct export growth, as compared to total manufacturing output grew by 53% in New Jersey from 1977 to 1980, compared to 72.4% for Connecticut and 104.3% for Massachusetts.

One of the factors in the United States' relatively poor performance with respect to growth in foreign trade is that many manufacturing firms are small and do not have the resources or expertise to enter foreign markets. This is equally true in New Jersey, where 96% of State firms employ less than 100 workers.

These small and medium sized firms which have products to sell and the capability to expand production have met with great difficulty in seeking out and penetrating foreign markets because of the complex nature of foreign trade transactions. Foreign trade requires market research, assistance in arranging foreign exchange, transportation,

insurance, preparing proper documentation for shipment, and legal advice from attorneys who are familiar with commercial law and laws of foreign countries. The purpose of this bill is to provide them with these services at low cost.

Export trade also requires financing. This legislation would permit the State authority to assist businesses in arranging financing through commercial banks, to provide loan guarantees and, if no other sources of funding are available, to provide loans directly.

[OFFICIAL COPY REPRINT]

ASSEMBLY, No. 3137

STATE OF NEW JERSEY

INTRODUCED FEBRUARY 28, 1983

By Assemblymen PATERO, BOCCHINI, MAZUR, PELLECCHIA, Assemblywoman COSTA, Assemblymen GIRGENTI, COWAN, LITTELL and ROD

AN ACT concerning international trade, establishing the Export Trade Information Center within the Division of International Trade in the Department of Commerce and Economic Development, establishing an Advisory Council on Export Trade, and supplementing Title 52 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. The economy of the State of New Jersey is undergoing a serious decline characterized by a decrease in private investment, plant shut-downs, a steady contraction of manufacturing jobs in the State and a rising rate of unemployment;

b. A major factor contributing to the declining economy has been the failure of business and industry in the State generally to prevent foreign competitors from penetrating and dominating certain domestic markets or to aggressively pursue overseas markets;

c. In recent years massive layoffs in the State have been concentrated almost entirely in the manufacturing sector where between 12 and 14% of employment, or some 103,900 jobs are export related;

d. The expansion of international export trade is vital to the overall growth of New Jersey's economy;

e. Small and medium-sized New Jersey businesses have vast

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

Matter printed in italics *thus* is new matter.

Matter enclosed in asterisks or stars has been adopted as follows:

***—Assembly committee amendments adopted April 11, 1983.**

export potential which is either totally neglected or underutilized because of outmoded and narrowly-focused marketing techniques and ignorance of available trade information and financing resources;

f. The State's labor force is generally uninformed about career opportunities in international commerce and deficient in applicable job skills;

g. Existing trade-promotion efforts are insufficient to effectively develop, coordinate and mobilize resources aimed ultimately at realizing the State's export potential.

It is declared to be the policy of this State to encourage business and industry involvement in international export trade, provide access to international trade techniques and export financing information and promote the *[exporation]* *exploration* of career opportunities in international trade.

2. In addition to duties otherwise prescribed by law, the Division of International Trade shall:

a. Identify specific industries with promising export potential;

b. Evaluate employment opportunities which are export related;

c. Cooperate with and provide information to the New Jersey State Export Trading Authority established pursuant to the provisions of P. L. , c. (C.)*[,]* *(* now pending as Assembly Bill No. 3136*)*, or any county or municipal export trading authority established pursuant to the provisions of P. L. , c. (C.)*[,]* *(* now pending as Assembly Bill No. 3135*)*;

d. Conduct advertising and promotional campaigns to increase awareness of opportunities in export trade among New Jersey businesses;

e. Promote and facilitate the establishment of twin-cities relationships between New Jersey municipalities and foreign towns and cities.

3. The Export Trade Information Center is established within the Division of International Trade in the Department of Commerce and Economic Development, which shall:

a. Compile information on trade assistance services available through the United States Department of Commerce and other State governmental agencies and prepare, compile, and disseminate research and statistical studies and other information useful to New Jersey firms presently engaged in or desiring to engage in international export trade, including information on techniques for:

(1) Assessing export potential and analyzing foreign markets;
(2) Selecting sales and distribution channels;
(3) Communicating overseas;
(4) Locating and contracting with foreign trade representatives;
(5) Establishing pricing, quotations and terms of sale;
(6) Receiving payment for exports;
(7) Financing exports;
(8) Arranging transportation of exports;
(9) Promoting exports overseas;
(10) And manufacturing exports; and

b. Sponsor seminars for: (1) small and medium sized business seeking practical information on how to engage in international export trade; and (2) individuals seeking information on career opportunities in international commerce.

*4. *The center shall, where practicable, utilize the resources of institutions of higher education to carry out the functions prescribed by this act.*

4. *5.* a. There is established within the Department of Commerce and Economic Development the Advisory Council on Export *[trade]* *Trade* which shall consist of nine citizens of the State appointed by the Governor with the advice and consent of the Senate to serve for a term of three years from the date of appointment, except that of those first appointed, three shall be appointed for a term of one year, three for a term of two years, and three for a term of three years. Each member of the council shall be qualified by substantial training and experience in at least one of the following fields:

(1) Agriculture;
(2) Banking and financial services;
(3) Foreign trade zones;
(4) International construction and engineering;
(5) International trade associations;
(6) Insurance;
(7) Small business;
(8) Tourism;
(9) Transportation, shipping and ports*[.]* *; or*

(10) Higher education, with a specialty in international commerce.

The Commissioner of Commerce and Economic Development and the Commissioner of Labor shall be members ex officio. Members of the council shall serve without compensation but may be reimbursed for necessary expenses incurred in the performance of their duties. The Governor shall designate a member of the council

to serve as chairman and to preside over the council's activities. The council shall organize and adopt procedures for the conduct of its business. Any vacancies in the membership of the council occurring other than by expiration of term shall be filled by the Governor, with the advice and consent of the Senate for the unexpired term only. Any member of the council may be removed from office by the Governor, for cause upon notice and opportunity to be heard.

b. The council shall assist the Division of International Trade:

(1) In the development of export trade;

(2) In the identification of regions around the world where New Jersey goods and services can profitably be marketed, and in recruiting corporate volunteers from the private sector to participate in trade missions;

(3) In the establishment of twin-city relationships between New Jersey municipalities and foreign municipalities; and

(4) In identifying employment opportunities in export trade related industries.

[5.] *6.* The Commissioner of Commerce and Economic Development shall regularly communicate to the Commissioner of Labor job opportunities in export-related areas and identify areas of potential growth in export-related jobs. The Commissioner of Labor shall evaluate New Jersey's work force to determine the adequacy of its skills for export-related jobs and shall provide for appropriate job training under existing job training programs.

[6.] *7.* This act shall take effect immediately.

ASSEMBLY LABOR COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3137

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: APRIL 11, 1983

This bill would require the Division of International Trade within the Department of Commerce and Economic Development to identify specific industries in New Jersey which have promising export potential, to evaluate employment opportunities which are export related, to conduct advertising and promotional campaigns, to increase awareness of export opportunities among New Jersey businesses, and to promote and facilitate the establishment of twin cities relationships between New Jersey municipalities and foreign towns and cities. The division would work with the State export trading authority and any county or municipality trading company which may be formed.

The bill establishes an Export Trade Information Center within the Division of International Trade. The center would be required to compile comprehensive information on the various kinds of trade assistance services which are available from such sources as the United States Department of Commerce. This information, along with research and statistical studies on export trade, would be required to be disseminated to New Jersey businesses. The center would also sponsor seminars for small and medium-sized businesses seeking practical information on how to engage in international export trade and for individuals seeking information on career opportunities in international trade.

The bill also creates an advisory Council on Export Trade. The council would assist the Division of International Trade in its activities, particularly in identifying foreign markets for New Jersey goods, in establishing twin cities relationships and in the identification of employment opportunities in export-related industries.

The Assembly Labor Committee has amended the bill to provide that the Advisory Board created by the legislation contain a representative of an institution of higher education who has a specialty in a field relating to international trade. The amendments would also provide that the Division of International Trade utilize the resources of institutions of higher education which offer programs in international trade.

This bill is part of a package of legislation which is designed to promote export trade as a means of encouraging economic growth, attracting new business to the State, and creating new jobs.

ASSEMBLY, No. 3138

STATE OF NEW JERSEY

INTRODUCED FEBRUARY 28, 1983

By Assemblymen PATERO, BOCCHINI, MAZUR, PELLECCHIA, Assemblywoman COSTA, Assemblymen GIRGENTI, COWAN, LITTELL and ROD

AN ACT providing for certain tax credits in connection with export trade activities and supplementing P. L. 1945, c. 162 (C. 54:10A–1 et seq.).

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

1. a. "Director" means the Director of the Division of Taxation.

b. "Export trading program" means trade or commerce in goods and services, a majority of the export value of which is produced in New Jersey, which are exported, or are in the course of being exported from New Jersey direct to any other country;

2. Notwithstanding the provisions of any law to the contrary, any corporation with assets of less than $10,000,000.00 which is liable for the payment of tax under the provisions of P. L. 1945, c. 162 (C. 54:10A–1 et seq.) shall be entitled to a tax credit under the act on account of:

a. Each year, for a period of five years following the issuance of a certificate of eligibility by the director pursuant to this subsection, one-fifth of the cost of the salaries and benefits of any full-time employees who are engaged solely in administrative work relating to any export trading program established by the corporation after the effective date of this act. No credit may be taken pursuant to this subsection until the corporation has filed notice with the director of the establishment of any export trade program and the director has issued a certificate of eligibility.

b. One-half of the cost of any fees or charges paid by the corporation, exclusive of any interest charge, to the New Jersey State Trading Authority established pursuant to P. L. 1983, c. , (C.), now pending in the Legislature as Assembly Bill No. 3136, or to any export trading authority established by a county or municipality pursuant to P. L. 1983, c. , (C.), now pending in the Legislature as Assembly Bill No. 3135, on account of any services rendered to the corporation by these authorities.

3. The director shall promulgate rules and regulations as are necessary to effectuate the purposes of this act.

4. This act shall take effect immediately.

STATEMENT

This bill, intended to encourage the development of export trade by small and medium sized New Jersey businesses, would permit certain corporations to take tax credits for salaries paid to administrative personnel who are employed to establish export trading programs. The bill would also provide incentives for businesses to these export trade opportunities under the aegis of state, county, or municipal export trade authorities by permitting tax credits under the Corporation Business Tax Act for fees and charges levied by these authorities for their services.

ASSEMBLY LABOR COMMITTEE

STATEMENT TO

ASSEMBLY, No. 3138

STATE OF NEW JERSEY

DATED: APRIL 11, 1983

This bill provides that any corporation with assets of less than $10,000,000.00 which is liable for the payment of the corporation business tax may take tax credits for a period of five years for salaries and benefits of any employees who are engaged solely in administrative work relating to any export trading program which the corporation may establish after the effective date of the act. Corporations would also be permitted to deduct one-half of the cost of any fees or charges (exclusive of any interest charges) paid to a State, county, or municipal trading authority.

This bill is designed to encourage smaller corporations to get involved in exporting by providing a financial incentive for them to do so.

Assembly Bill No. 3138 is part of a package of legislation which is designed to promote export trade as a means of encouraging economic growth, attracting new business to the State, and creating new jobs.

ASSEMBLY RESOLUTION No. 3014

STATE OF NEW JERSEY

INTRODUCED FEBRUARY 28, 1983

By Assemblymen MAZUR, PELLECCHIA, Assemblywoman COSTA, Assemblymen GIRGENTI, COWAN, LITTELL, ROD, PATERO and BOCCHINI

AN ASSEMBLY RESOLUTION memorializing Congress to provide for the granting of a tax-exempt status under the Internal Revenue Code for International Trade Bonds to be issued by state and local governments for the purpose of promoting and financing international trade.

WHEREAS, The United States' share of world exports has dropped significantly in the past two decades, with the result that the United States now exports only 8.2% of its gross national product, which is the lowest of any industrialized nation in the world; and

WHEREAS, For many regions of the United States, particularly the older industrial areas of the northeast, foreign trade represents a means of expanding production even though domestic markets may have reached capacity, thereby creating new jobs; and

WHEREAS, Most of the other industrialized nations of the world have traditionally assisted the export trade activities of their domestic industries by providing a subsidy on the financing of export trade, with the result that United States firms have often been unable to match their foreign competition in this respect; and

WHEREAS, The Congress has recently enacted the Export Trading Company Act of 1982, P. L. 97-270, which has given the several

states the opportunity to provide greater assistance to encourage and to facilitate international trade by domestic manufacturing firms, which will encourage the growth of the productive capacity of existing industries and create jobs and tax revenue for state and local governments and for the federal government; and

WHEREAS, No endeavor by the several states to promote and encourage international trade using this mechanism will be fully effective in meeting foreign competition unless the states are permitted to use their tax-exempt bonding authority in the furtherance of the financing of export trade transactions; now therefore,

BE IT RESOLVED *by the General Assembly of the State of New Jersey:*

1. That the Congress of the United States is respectfully memorialized to provide for the establishment of a tax-exempt status under the Internal Revenue Code for International Trade Bonds to be issued by the several states and their political subdivisions, to aid the states in encouraging the growth of exports by domestic industries, which will accrue benefits, in terms of value created thereby, to the economy of the United States as a whole, by the fostering of economic development, and the creation of additional revenues for state and local governments and for the federal government.

2. That duly authenticated copies of this resolution be sent to the presiding officers of the United States Senate and House of Representatives, and to every member of Congress elected from the State of New Jersey.

STATEMENT

This resolution memorializes Congress to provide for the establishment of a tax-exempt status under the Internal Revenue Code for International Trade Bonds.

ASSEMBLYMAN JOSEPH D. PATERO (Chairman): Good morning. Welcome to the Assembly Labor Committee's hearing on the Export Trading Company legislation, which is before the Committee, and which is the subject of this hearing today.

The purpose of the legislation is to encourage New Jersey business and industry to develop export markets. Assembly Bill No. 3136, would establish a State Export Trading Authority, which would assist smaller businesses in developing export trade.

Assembly Bill No. 3135 would permit the establishment of Export Trading Authorities by counties and certain municipalities.

Assembly Bill No. 3137 establishes the Export Trade Information Center within a Division of International Trade.

And, Assembly Resolution No. 3014, memorializes Congress to provide for a tax exempt status for bonds issued by the Export Trade Authority. This would permit the State to provide financing for exports at below market rates, which will permit American goods to compete with foreign products.

Assembly Bill No. 3138 would allow certain tax credits to encourage businesses to establish export departments. Many smaller firms are reluctant to develop and maintain export trade because of the special skill and expertise required with respect to finding suitable foreign markets and arranging financing, transportation, and insurance for this trade. Often, the skills and expertise needed are beyond the resources of smaller businesses. We hope that this legislation provides a vehicle to assist them.

Foreign markets represent a means of expanding a company's productive capacity when its domestic markets are saturated. This means job creation and job retention, which is very important for a State such as New Jersey.

We look forward to hearing your comments, and discussing with you the legislation that is before us today. We will ask each of you to make a statement. The Committee members will then ask questions. The hearing record will remain open for two weeks, so that you may submit additional material.

With us today, to my left, is Assemblyman Tom Cowan and our legislative staff member, Laurine Purola. To my right is Mora McLean, who is also a legislative staff member, and Assemblyman George Rod.

We are very honored to have some distinguished guests today. They have come to testify on this bill. I just hope that we can use this testimony in our attempt to create jobs for New Jersey, and also in our attempt to retain jobs in New Jersey. Since all the markets -- I feel -- are saturated right now, I think it is important for us to look to other areas in order to find new markets for New Jersey's goods. I feel it is important for us to pursue a program such as the one we have before us.

The first witness to testify today will be Mr. Thomas J. Murray, Regional Managing Director, Trenton District Office, United States Department of Commerce. Mr. Murray?

THOMAS J. MURRAY: Mr. Chairman, members of the Committee. The recent expansion of State involvement in international trade, from 1976 to 1980, and State expenditure for international trade increased by 400%. Thirty-three states now operate a total of 66 offices overseas. More than one hundred State foreign trade missions are conducted annually. Together, the fifty states spent as much for international trade as the Federal government did. And, the emphasis of State trade programs is beginning to shift away from investment and towards promotion.

While a few states still limit their promotion to occasional trade missions, or operating a booth at foreign trade shows, others are engaged in unusual experimental projects, such as a recent endeavor by a number of western states to form an export trading company in order to sell coal to foreign countries.

Several states have begun to explore positive incentives for short-term export credit arrangements, or special tax exemptions for new market customers.

Why is all this happening? Because exports create jobs. In New Jersey, exports represent 12.2% of total manufactured shipments, and accounts for 12.75% of total employment in manufacturing. One hundred and three thousand, nine hundred jobs in New Jersey exist because of exports.

I congratulate the Assembly Labor Committee for recognizing the importance of exporting to New Jersey's economy. It seems that the Labor Committee wants to take constructive steps to raise the employment base in New Jersey.

My two colleagues from the U.S. Department of Commerce, and George Becker, who is with the New Jersey District Export Council, a group that is affiliated with the U.S. Department of Commerce, will discuss the financial aspects of export promotion and competitiveness. They will respond directly to some of the issues you have raised in your bills.

Because I am the only one of the group from the Department of Commerce who is physically located in New Jersey, I would like to take this opportunity to talk about the current international trade activities that are going on in the State, in order to put some of them into the proper perspective.

There are a variety of organizations that are promoting exports. One of these is our organization, the U.S. Department of Commerce. We have an office in New Jersey which is located down the street, in Trenton. We have a staff of fifteen people. We have six individuals who are export consultants, and who are working with approximately thirty-six hundred companies in New Jersey at this point.

Each of those trade specialists is working on a geographical basis, so that every company in New Jersey has a trade specialist in Trenton who is responsible for their particular account.

We are working to try and increase exports from New Jersey, by working with companies who are already exporting We help them to increase their exports and put their goods into new markets. We also work with companies who have never exported, by expressing to them the merits of exporting and helping them get into exporting for the very first time.

This year, we made a determination locally that while we would continue to work with as many companies as we possibly could, we would concentrate on a couple of industries that we felt had a very high export potential in New Jersey. One is the computer peripheral and software market, and the other is the medical equipment market.

We received the cooperation of Rutgers University and Fairleigh Dickinson University, who are helping us in the Department of Commerce to put together research material. We are working with the State Division of International Trade, with their trade shows. In discussions between our department, Ming Hsu, and Mr. Blekicki's staff,

have jointly selected some trade shows for overseas, whereby the State will recruit, provide logistical support, and man the booths. We will help to recruit because we have already identified those industries as high-potential industries. We are in constant contact with these people.

The district office is also sponsoring, for the second year in a row, a very major mid-Atlantic conference, to be held in Atlantic City, New Jersey, where we expect to have several hundred people attend. That takes place next week. The reason for that location -- Atlantic City -- as opposed to some other part of New Jersey is because initially we would like to make it a region-wide conference, and then eventually we would like to make it a national conference. We feel that Atlantic City is an attractive location if we are going to make that our goal.

Aside from the work the trade specialists in the district office do -- which, if you will recall, is on an account-executive basis, working directly with manufacturers -- we have an organization called, "The New Jersey District Export Council", which currently has twenty-two members, all private sector people, with one or two exceptions -- Ming Hsu being one of those -- who work with the Department of Commerce on a volunteer basis to promote exports in New Jersey. This organization, one of the 48 that exists nationally, is probably the most active. It is certainly one of the most active.

There are several organizations in New Jersey who hold monthly seminars, and one organization holds an annual seminar. The World Trade Association of New Jersey, which meets in West Orange, holds monthly seminars on international trade. And, the World Trade Council holds a large session during World Trade Week in May every year. They generally have four to five hundred people attend that. Governor Kean will be there this year. Governor Byrne was there the year before.

There are a variety of colleges which hold monthly meetings -- international sessions. Middlesex County College holds a round table every month. Mercer County College has a "business over breakfast" every month. The Foreign Trade Club of Morris County, which is really backed by the Morris County College, holds monthly meetings. Bergen County Community College holds monthly meetings, and so forth.

There are educational institutions which have occasional international seminars: Rutgers, Fairleigh Dickinson, Glassboro State, Brookdale, Caldwell College, and Kean, to name a few. If one were to add these up on an annual basis, one would find that there are approximately one hundred international seminars taking place in New Jersey every year.

Some of the colleges, such as Fairleigh Dickinson, Montclair State, Rutgers, and so forth, provide student interns, both to the U.S. Department of Commerce and to the Division of International Trade.

We have Port Authorities, such as the New York-New Jersey Port Authority, who, through the World Trade Institute, conduct seminars continuously in New Jersey. Also the Delaware River Port Authority conducts occasional seminars and makes their services available, through their offices overseas.

Also, in this State you have approximately one hundred export management companies. There is very little difference, technically, between an export management company and an export trading company. The difference is more the nature of the scale of the operation rather than anything else.

Most export management companies, in essence, if they are of any size, are really trading companies. The Trading Company legislation was passed to provide for bank participation and, of course, for antitrust considerations. A good example of that involves the states on the Pacific coast, who are looking at a joint venture to market coal overseas. Without this kind of legislation, that would be illegal.

The Almond Growers Association is doing the same thing. Also, the Machine Tool Builders Association is in the process of seriously considering an export trading company.

We already have many of these export management companies in New Jersey. Frankly, few of them are of the scale that can make any impact. I believe one of those organizations is represented here today -- one of those companies is represented here today.

So, as you can see, the point I want to make is, there is a tremendous amount of export promotion already going on in New Jersey. The State is involved in trade shows. There are over one hundred

seminars. Our trade specialists are out providing information, calling on companies, and helping them to develop international marketing plans. But, there are some things that aren't being done that I would like to suggest.

One of the areas that the Legislature should look at is the continued provision of active support to the Division of International Trade. I think while Mr. Blekicki will speak more specifically to that issue, a continuation along the path they are currently on would be wise. I would suggest that the Legislature might want to help create a climate that will encourage the formation of private sector export trading companies in New Jersey. I think that, where necessary, it is useful to have the public sector come into the picture, but in my judgment that may be premature and unnecessary at this time, until we find out what role the private sector is going to play in this.

I would also suggest that the Legislature and the State should take careful look at the possibility of providing financial assistance to New Jersey companies through loan guarantees.

Now, the gentleman who will follow me, from the Department of Commerce, will speak more specifically to loan guarantees and the whole financial aspect of this issue.

That concludes my testimony. I would be glad to entertain any quesstions you may have, particularly with reference to any activities of a promotional nature that are going on in the State. Thank you.

ASSEMBLYMAN PATERO: I have no objection to what we have been doing so far in the State. I think it is great. But, what I am looking at is the smaller businesses. I know Sears Roebuck and J.C. Penny are in this, but my concern is with the small businessman, the man who has a small business. He is afraid of tackling this -- going into the foreign markets, and so forth. That is one of the reasons I think it is important for the State to have a Department or a Division that promotes something like this.

I have some questions. You spoke of your office. What kind of assistance do you provide?

MR. MURRAY: Well, based on the information we have available-- First of all, let me say that the U.S. Department of

Commerce is the international marketing arm of the Federal government. There are a couple of other organizations in the Federal government that are involved in international trade, but to a much more limited degree -- such as the State Department.

Most of the overseas commercial offices of the State Department are now part of the Department of Commerce. We have experts on virtually everything in Washington, from country debt officers, to commodity specialists, to major projects specialists, to investment specialists, etc. Therefore, each district office, including the one in New Jersey, draws on that information from our post overseas, which we are in contact with constantly, on a Telex basis. We draw on the information that is available to us from Washington and we take that out to the business community. We sit down with individual companies -- a great majority of which are small. The largest of these companies is of medium size. We very, very infrequently work with the large companies, for obvious reasons: they don't need us so much. We help them work out specific problems they may have. We help them to explore specific opportunities that we are aware of. And, we help them develop individual marketing plans. We can locate overseas distributors for them also. We can do a whole variety of things.

In my judgment, what we are doing is very useful. If we could have anything we wanted that we do not have now, it would be one hundred more people. That is our primary role -- providing specific assistance to individual companies.

I mentioned over one hundred seminars. We participate by supporting those organizations, but we do not, ourselves, run any seminars.

ASSEMBLYMAN PATERO: I have a few other questions. You said that someone else will speak on financing?

MR. MURRAY: Yes. Stephen Bisenius is with the U.S. Department of Commerce, and John Cole is with the U.S. Department of Commerce. They will be testifying later.

ASSEMBLYMAN PATERO: These are just general questions. In your view, can smaller firms find markets for their goods abroad?

MR. MURRAY: Well, the general answer to that question would be, sure. There is a market for products, assuming the company has reasonable resources to pursue those markets with. Sure.

ASSEMBLYMAN PATERO: Because we are on the east coast, do you feel these markets would be in Europe, Africa, and South America, rather than in the Pacific?

MR. MURRAY: No, I don't think so. I think that one looks at where a particular product can be sold overseas. The fact that Europe may be slightly geographically closer is not the issue at all. As a matter of fact, the greatest markets for U.S. products, in general terms, would be the Pacific base, and then the Asian countries. We are talking about Hong Kong, Korea, Singapore, and so forth. These are generally better markets than Europe, but that is very much a generalized statement.

ASSEMBLYMAN PATERO: In what areas do businesses need the most assistance to develop an export trade?

MR. MURRAY: Well, they need to have a variety of things. One, they need to know where the product can be exported. Then they need assistance in making that export shipment. That assistance can be provided, if they are not going to do it themselves, and that is a reasonable choice for them to make: either an export management company, or an export trading company. Technically, there are not any export trading companies right now, because none have been certified. They couldn't have been certified; that won't happen until June. So, they either have to do it themselves or they have to have somebody do it for them, which would be the export management company.

So, one point is, they need some direct assistance -- either indirect or direct -- in the marketing sense. The other point would be the financial part: one, the availability of financing; and, second, the more difficult issue, competitive financing. That is why I mentioned the guarantees before. Guarantees can offer lower interest rates. That is the problem. I am not talking so much about the quality of the product, the delivery, or the service, all of which are important, but as time goes on, the competition for financing becomes increasingly important.

ASSEMBLYMAN PATERO: We know -- as you stated -- the United States has lagged behind. What is your feeling on that? Why has the United States lagged behind other countries in the development of export trade? Do you have any ideas on that?

MR. MURRAY: In my personal experience of almost fifteen years, I think the biggest reason for that is an issue that has often been discussed in the Department of Commerce, and that is that most U.S. corporations -- with the exception of the obvious large corporations -- most small and medium sized corporations, because of the size of the domestic market, do not pursue the international marketplace. They can be fully occupied trying to pursue markets in the United States, in areas distant from New Jersey -- the Midwest and so forth. And, U.S. companies, unlike their competitors overseas, do not take a global view. They look upon a market in England as being far, far different from a market in Texas. We try to convince them that they shouldn't view it that way.

So, I think that is the biggest reason for this lag, the size of the U.S. market. There are other issues also, such as not knowing how to start, the fear of not getting paid, etc. I think if our domestic market was smaller, we would be more international-minded; However, it is shrinking all the time.

ASSEMBLYMAN PATERO: That is why I feel it is important for us to have a public sector for this rather than have a private sector, because there are people who are probably afraid to tackle this on their own since it involves getting an attorney and looking for financing. I feel that is why the public should play an important role in developing an overseas market.

I also understand that the City of Philadelphia has received a grant from the International Trade Admdinistration to finance its export trade promotion activities. Are such funds available to states, and, if so, what would be the procedure for application?

MR. MURRAY: Funds are available. The program you are talking about was an International Trade Administration Small Business Grant Program, which was in existence for the first time last year. It was the first time it was done. There was one and one-half million dollars involved, nationally. Sixteen organizations were awarded money. The awards were based on the ability of the applicant to say how they were going to spend the money on export promotion, with some specific goals. We were also looking at trying to put new organizations into the business of exporting, organizations who were not in the business of exporting before.

For example, there were a number of export management companies that applied for these monies. The view was that these export management companies were already providing a service, and they would use the money to increase that service. In the case of Philadelphia, for example, they were not providing a service at all, so it was thought that it would be useful to give them seed money, and get them into operation, which, hopefully, would continue for a long period of time after the grant ran out.

This year will probably be the final year of that program, and there is one million dollars available, nationally. As far as how one applies for the money, instructions will be publicized within the month. Certainly, that information will be made available to all companies here, and it will be made available to the State.

ASSEMBLYMAN PATERO: In your view, how can higher education contribute to the effort to expand New Jersey's export trade specifically?

MR. MURRAY: Aside from providing specific knowledge to the students, I think what I personally would like to see is a greater awareness on the part of educational institutions of the importance of international trade. I am not sure they all have that. Some do and some don't.

I would like to see more courses in international trade. And, I would like to see some job related programs in international trade, one of which we are currently discussing with Rutgers. One of the members of my staff is involved in this discussion with Rutgers University. The course would provide one full year of intensive training in international trade, followed by six months of work with the business community as part of their curriculum. We are personally talking to Rutgers about that now.

Obviously, the role of an educational institution is to educate, and there are two ways to do that. One way is to take it outside, to the business community. That is what I was talking about here with relation to Kean College, Caldwell College, etc. -- an increased emphasis, or an increasing emphasis on this with the student body itself, because this student body is going to be the future managers of the corporations in New Jersey.

We would like to see a continuing development of their student intern programs. I think there is a lot that can be done there. That is part of the educational process. That brings the two things together -- helping the New Jersey companies, while helping the students at the same time.

ASSEMBLYMAN PATERO: Who would determine whether incentives for export trade violate the general agreement on tariffs and trade, and are the provisions binding on the United States and its territories?

MR. MURRAY: The provisions are binding. Who specifically makes that determination, I don't know. I don't know if that is the Special Trade Representative's office or not, but one of my colleagues has to know the answer to that. George, do you know?

MR. BECKER: It probably would be Ambassador Brock's office.

MR. MURRAY: Ambassador Brock is the Special Trade Representative.

ASSEMBLYMAN PATERO: To what extent does a private concern help small businesses, besides supplying finances?

MR. MURRAY: Pardon me, sir? Would you repeat that question?

ASSEMBLYMAN PATERO: Can the small businesses receive financing through banks?

MR. MURRAY: Yes.

ASSEMBLYMAN PATERO: What other assistance can a private concern give to small businesses who are looking for a trade market?

MR. MURRAY: Aside from financing?

ASSEMBLYMAN PATERO: Yes. If someone has nowhere to go right now -- say he has brake linings for old automobiles to sell, automobiles that are still in existence in Europe or South America, and he now wants to send these brake linings overseas -- I know one of the problems is financing. To get started on where to look in order to do this, or to cut the red tape, etc., where would he go right now?

MR. MURRAY: Since you said private, we will eliminate our office and the Division of International Trade.

ASSEMBLYMAN PATERO: That's right.

MR. MURRAY: One place he certainly should go to is his bank. There are a number of banks in New Jersey that have international divisions. And, I would certainly encourage any exporter who is interested in pursuing exports to work with a bank that has an international division. If his bank doesn't have this, it would have a correspondent that does, which may very well be a New Jersey bank or it may not be. But, the point is, they are a tremendous source of information. Some banks, of course, are better than others, and I would like to have a bank, if I was a manufacturer, that had people who traveled overseas, and that had correspondents and branches, etc. That certainly is one point. They can provide a lot of credit information, and a lot of market research information, etc.

He could go to the New Jersey District Export Council, which is an organization formed for that very purpose. We have twenty-two members, as I stated, on the District Export Council, and all of them are practicing international people. They are export managers of large corporations. They are presidents of medium sized corporations. They are consultants. All of them have practical experience which we make available at no charge. So, that is the second thing he can do.

Many people who are in the business will provide services to exporters for a fee -- aside from the export management companies and consultants. Steam ship companies, freight forwarders, and people like that, not only will ship the goods for a company, but they will advise them on how to price the goods, particularly as it refers to the freight, etc. So, there are a variety of places that one can go to for help.

There is somewhat of a buddy system in the export community, I think, that you don't necessarily find in the domestic marketplace. For example, if a company is considering sending a representative overseas, often it will call someone who is not a competitor but who handles the same line and who uses the same agent and discuss it with him. I don't think that would be done so much domestically, but it is available.

So, there are places where one could go, but they are not a full service type of thing, where someone is going to pull the whole thing together without using an export management company or an export trading company.

ASSEMBLYMAN PATERO: That is why I say I don't know whether a small businessman would want to look into areas like that.

I don't know if you can answer this, but what type of priority would banks give to a loan for the foreign market? Would that be a high priority for banks? Does getting the loan come easy, or is it much more difficult than it would be to get a domestic loan?

MR. MURRAY: I really couldn't answer that question. I think that would vary a great deal. I don't think I can address that question.

ASSEMBLYMAN PATERO: Okay. I have no other questions. Assemblyman Cowan or Rod, do you have any questions?

ASSEMBLYMAN COWAN: On the promotional points, which is your basic field, how much has been done insofar at this free enterprise zone is concerned in the State? You mentioned that we have something in Morris County College. Have you been promoting along those lines, and are there small businesses coming in there? You mentioned the New York and New Jersey Port Authority. I assume Delaware is probably active in that also. How about the Maritime Port Council, or groups like that, are they promoting this and moving into the export field?

MR. MURRAY: Well, the Department of Commerce is the organization who licenses -- that is not the word I want, but that is close enough -- foreign trade zones. So, we are involved in that. We encourage companies to go into foreign trade zones where we believe it would benefit them. It is really the responsibility of the organizers or promoters of the foreign trade zone, whether it be in Mt. Olive or in Port Elizabeth. It is really up to them to promote that.

My own personal view is that is doesn't increase exports. It can be of benefit to the local community to have organizations establish there and do their business through the foreign trade zone, but presumably they would have done it someplace else if they didn't do it there. That is my personal opinion.

Now, there are a variety of other organizations, including those you mentioned, which are, for their own benefit, promoting international trade.

ASSEMBLYMAN PATERO: One other thing. I talked to the Commissioner of Commerce yesterday and I feel that he is way

understaffed. He told me the amount of people he had working for him. If this program went into effect, what would you think would be an operating personnel staff for a department such as this?

MR. MURRAY: For what program, the trading company? Is that what you are referring to?

ASSEMBLYMAN PATERO: Yes, in the State. Knowing the climate of New Jersey and the amount of business that we have here, what would be a workable staff?

MR. MURRAY: Boy, I really haven't focused on that. That is a difficult question, and I am not sure I can deal with it. So, rather than deal with that, let me make another point.

ASSEMBLYMAN PATERO: Okay.

MR. MURRAY: I think that while it is necessary to have an adequate number of people, however one wuld describe that, working in the Trading Company, a more important issue to me is having the proper people, having technically proficient individuals to do that kind f work -- people who have a background in international trade -- and there is not a large number of these people currently available, frankly. So, if in your good wisdom you decide to take that tact and form a trading company, then I would say that the important thing to do would be to get good management and good technical expertise to run it. And, how many people it takes to do that is a little less important than who the people are, I think.

ASSEMBLYMAN PATERO: Unfortunately, some of those people would probably want more salary than the Governor is making, if they are good. (laughter)

MR. MURRAY: Well, that is a real life issue, quite frankly.

ASSEMBLYMAN PATERO: Yes.

MR. MURRAY: The kind of person who runs the organization, if he is good enough to operate on a statewide level, would be good enough to make a heck of a lot of money in the private sector.

ASSEMBLYMAN ROD: Have you any experience with trading companies in other states? Can you give us an example of where other states have established this type of thing?

MR. MURRAY: No, I cannot.

ASSEMBLYMAN ROD: The only thing I am afraid of is, if it is done by the government, most of the time you don't get qualified people. It just becomes a political situation.

MR. MURRAY: The only one that I am aware of currently is-- Once again, there are no export trading companies, in the very technical sense, at this point because although the banking regulations are now out, they are not open for certification or process until June 9th, I believe it is. So, we can only talk about those who have said that they are considering it.

I am not personally aware of any state doing this. Maybe my colleagues know more about states that are pursuing this area. The only other entity that I know of is the City of Philadelphia, who turned it over to the PIDC, which stands for the Philadelphia Industrial Development Corporation. This is a group that is funded by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce. They are very much in the initial stage. They have had some funding made available to them from Philadelphia banks and some other corporations, but I can tell you that they are not staffed up for it at this point in time. I don't know where they are going with that, but they sure aren't ready to go now.

You are all aware, obviously, of the Port Authority of New York and New Jersey, which is not a state organization; however, that comes closer to it than anything else I can think of.

ASSEMBLYMAN PATERO: The problem we have with the Port Authority is -- as I said -- the majority of the aid would go to help New York State, rather than the State of New Jersey. That is why we are looking at this program. We want New Jersey to have its own setup.

MR. MURRAY: Well, they would debate that, but that is for them to debate, not me.

ASSEMBLYMAN PATERO: Right.

MR. MURRAY: I can't point to another state and say, "They are doing this. Perhaps they are a model, so keep your eye on them." Maybe, as I said, my colleagues know of one that I am not aware of. Shake your head yes or no, Steve.

MR. BISENIUS: There is no statewide effort.

MEMBER OF AUDIENCE: Iowa has one, and Wisconsin may have one.

MR. MURRAY: I stand corrected, Iowa and potentially Wisconsin are doing this.

ASSEMBLYMAN PATERO: You said there is going to be another million dollars for seed money?

MR. MURRAY: Yes, that is going to be distributed and it is not to exceed ten grants -- one per region. We have a variety of regions in the Department of Commerce that I am not going to bore you with because I am not sure I understand them myself. They are commerce regions, which are not the same as a Federal region. I think they are including New York and New Jersey under one region, so there will be a variety of people -- perhaps including the State of New Jersey and the State of New York, I don't know -- who will be vying for this grant, which would not exceed one hundred thousand dollars for one year.

ASSEMBLYMAN PATERO: One of the most important advantages to exporting is the fact that it creates jobs. Would you give us an overview of the kinds of jobs that would be created as a result of expanding New Jersey's exports?

MR. MURRAY: Well, I would say the answer to that would be "across the board." The first thing a smaller company does is to hire someone to help out with the administrative work. Then it would need greater administrative support in terms of separating the duties of the sales manager into domestic and international, and that would end up with a different individual for both fields. It would need greater backup support, more clerical support, and then, obviously, at some point in time, more production support as the production increases. Because the whole idea is that by selling overseas, you are not diverting your attention from one market to another; you are broadening your scope and increasing your sales and your products, and, therefore, you need more production people. Ultimately, these production people would be the greatest number of people involved.

ASSEMBLYMAN PATERO: I assume that the ports would then be increasing their labor force too.

MR. MURRAY: Oh, yes. Absolutely. The Longshoremen's Union and all the service companies that tend to the port -- the freight forwarders, etc., would be increased. And, perhaps there would be more air shipments out of Newark, and that kind of thing, which is all based on traffic.

ASSEMBLYMAN PATERO: Because I feel that is one of our highest unemployment areas -- the ports. I know the County of Camden has an export trade company. That is why we have a bill in that would include county organizations.

Are there any further questions? Assemblyman Rod?

ASSEMBLYMAN ROD: Is there any benefit at all for the the local municipality to start a trading company on the municipal level, or do you think this would be branching out into too many different directions?

MR. MURRAY: I was surprised to hear you say Camden. I wasn't aware of that. I made a comment in which I said I felt that rather than addressing the question of the number of people, we should be talking about the quality of the people. If it is going to be difficult to get an adequate number of high quality people to work with a trading company on the state level, I can't imagine how you would do that on the local level. Maybe there is an answer to that that I am unaware of. It seems to me that would be unworkable.

ASSEMBLYMAN PATERO: But, a large city, such as Philadelphia--?

MR. MURRAY: You remember I said that Philadelphia was considering doing it. They have been talking about funding and so forth. They are still not staffed up to do it. Let's see what happens with Philadelphia. They would be in a better position than Camden County, obviously.

ASSEMBLYMAN ROD: If the private sector decides to form a trading company, would they be as entitled to all the benefits a State government would be entitled to? Would they be able to apply for grants?

MR. MURRAY: Of course. They would be able to apply for grants. There are very few grants. We had a grant program last year for a million and one-half dollars, nationally. We have a program this year for one million dollars. And, next year there won't be any grant at all. The Department of Commerce, which is operating this program, is not looking for grants. That was legislated by Congress, who felt that it was a good idea -- particularly the Senator from Connecticut. I wouldn't look forward to additional grants in the future.

ASSEMBLYMAN ROD: We have a resolution here which memorializes Congress to provide for the granting of a tax-exempt status for international trade bonds, to be issued by State and local governments, for the purpose of promoting and financing international trade. Do you think that will be a benefit?

ASSEMBLYMAN PATERO: Well, that is only for the State. You have to remember that private trade companies cannot provide the financing. A person would have to go to the-- If you went to a private trading company, all they would do is set up the papers. You would have to get your own financing.

Under this, the State of New Jersey would provide the financing with assistance from the banks. The banks would give a certain percentage of their money to the State of New Jersey to use in this manner. That would make it attractive -- taxable bonds -- for the banks to do this.

ASSEMBLYMAN ROD: That has to be done by an act of Congress?

ASSEMBLYMAN PATERO: Yes, that has to be an act of Congress. I'm sorry, I mean tax-exempt bonds.

Also, I want to correct the remarks about Camden. What they did was, they formed a trade mission. They did not form a trade company.

MR. MURRAY: Oh. Okay.

ASSEMBLYMAN PATERO: Are there any other questions?

ASSEMBLYMAN COWAN: There will only be one million dollars available this year. Are you talking about this fiscal year? What period of time are you talking about?

MR. MURRAY: I am talking about fiscal year 1984 -- Federal fiscal year, 1984. I am talking about this coming October 1st, which would start the year.

ASSEMBLYMAN COWAN: You indicated that the information is disseminated by you, as far as applications are concerned. Is that correct?

MR. MURRAY: It is disseminated nationally through the Department of Commerce, and locally through our office, yes.

ASSEMBLYMAN COWAN: You reach out to various companies. Do you also reach into the -- I would assume it would be the Department of Commerce here?

MR. MURRAY: We have a close working relationship with the Department of Commerce here, both with Mr. Blekicki, Mr. Putnam and Ming Hsu. It is a member of our New Jersey District Export Council.

As a matter of fact, I should have mentioned this. We have co-located an individual from our office into the State office in Newark. The gentleman who does that is present here today. So, in essence, we have somebody working out of the State office in Newark. This way we can maintain a close working relationship, and they would be the first to know about anything.

ASSEMBLYMAN COWAN: When would these applications be available for fiscal '84?

MR. MURRAY: In the spring. I am waiting for the instructions, which are running behind for a variety of reasons. They should be out now. They are not out now, but they will be out in a month or so.

ASSEMBLYMAN COWAN: When do you think it would be possible to give this information to the Committee, so that we will be aware of what the process is?

MR. MURRAY: I will do that. I will make that available to the Committee. I would also like to invite the Committee -- if you would like to come down to Atlantic City on Monday and Tuesday of next week -- to attend Export Expo '83 and show your support for an initiative which, it is my hope, will help to further develop New Jersey by focusing an international spotlight on New Jersey. You are certainly welcome to come down. If you would like to come, just give me a call.

ASSEMBLYMAN ROD: Have we had any dealings with the Port Authority, as far as your department is concerned?

MR. MURRAY: I didn't hear the last part of your question.

ASSEMBLYMAN ROD: Does your Department have any dealing with the Port Authority of New York and New Jersey by any chance?

MR. MURRAY: We work closely with the Port Authority. Yes. Absolutely.

ASSEMBLYMAN ROD: Do you feel they have the expertise for this type of trade operation?

MR. MURRAY: I think the Port Authority is in a position to provide the expertise. They are in the unique position, financially and otherwise, to put it all together at some point.

ASSEMBLYMAN PATERO: That was a good answer.

Are there any further questions? (no response) Thank you very much, Mr. Murray.

MR. MURRAY: Thank you.

ASSEMBLYMAN PATERO: Our next witness will be Mr. Win Straube from Pegasus International Corporation, Straube Center.

W I N S T R A U B E: Good morning.

ASSEMBLYMAN PATERO: What kind of a corporation is this, Mr. Straube?

MR. STRAUBE: Pegasus International Corporation is an export trading coporation. It has been in existence since 1951.

To clarify the difference between export trading companies and export management companies, which were mentioned here before, export trading companies mostly take title to the goods here in the United States and export them, while export management companies earn the commission on the sale. This, in part, also answers your question as to the financing. In other words, export trading companies finance the sales -- the overseas sales -- while export management companies will not.

Mr. Chairman, members of the Committee, I would like to address myself to the various bills you have drafted. The basis of all of them seems to be the Export Trading Company Act of 1982. This, I think, was patterned after the Japanese general trading companies because they have been considered very successful over the years, internationally.

However, I think you should be aware of the fact that right now the Japanese trading companies are undergoing very difficult times. As a matter of fact, in Japan they are talking of the "winter season" for the Sogo-Shoshas. This is what they are called. So, this idea may be a very late idea, or a later entry into a world that is changing and changing very rapidly.

It is my opinion that ETC's are not what has kept the United States out of world markets. After all, we have had export trading

companies. For instance, the Japanese trading companies are established in the United States and are doing a very substantial business out of the United States.

There are many other countries which have export trading companies, and I brought along some material to illustrate this, because in a way it is a similar effort.

For instance, the Soviet Union has one trading company here, which is called AMTORC, and it is situated in New York.

Now, these are, in a way, taxpayer-supported export trading companies in other countries. I don't know how many of you have been buying Russian goods. In other words, the fact that a government, with all its resources, puts companies like this in existence does in no way assure the success of these companies, nor that their products really will be sold in other countries. As a matter of fact, I think in a way the Port Authority should be able to accomplish a lot of the efforts that you have in mind here.

Nevertheless, the ETC legislation -- this proposed legislation you have before you -- does not address the real issue of the American non-competitiveness internationally. If I may, maybe I will just point out a few of the real barriers that we in New Jersey, or anywhere else in the United States, have to deal with, internationally.

The first one is the exchange rate. The U.S. dollar exchange rate has been tremendously high. As a matter of fact, if I may give you an example, say you priced your goods for the last three years at exactly the same price, assuming there was no price increase since 1981. Suppose you sold your goods to Britain. In 1982 the dollar cost to the British pound changed by 25%. In other words, in 1982, the British customer was going to pay 25% more for the same product, although you did not change your price.

In 1983, it changed by another 24%. In other words, he is now paying another 24% more in Britain, without the price ever having changed here in the United States.

If you apply this to Germany, for instance, the comparison between 1981 and 1982 saw the dollar exchange rate go up by 14%. Between 1982 and 1983, it went up another 2%.

In Japan, between 1981 and 1982, it went up 17%. And, in 1983, it went down 3%. Which means today we are still 14% higher than we were three years ago, without having increased our prices. So, this is a real barrier, and there is probably little we or the State of New Jersey can do about it.

I will give only three reasons why this is so. The first reason is the interest rates within this country. They have a greater spread above the foreign rates, and as a result this keeps the U.S. dollar rate up.

The second reason is, many of the commodities traded internationally are nominated in U.S. dollars. For instance, petroleum. There are many people who buy petroleum outside of the United States and they pay with dollars outside of the United States. Therefore, we have no influence over this.

The third reason is, there are large U.S. dollar amounts, offshore, over which the U.S. has absolutely no control. For instance, the Euro-dollar and the Asia-dollar. They are totally separate from the dollar, yet they are dollars which have an influence on the exchange rate.

Another reason why it is so difficult for us to overcome this is the cost of our goods. Again, this is based very much upon the exchange rate. The exchange rate has a big influence. I would like to quote from a study done by Citibank in New York, which found that the U.S. moved from third place in 1981 and fifth in 1980 to become the eleventh most-- Let me put it another way. The U.S., this year, has the highest hourly manufacturing compensation rate of eleven major industrial countries. This, of course, would include New Jersey. This is largely because of the dollar's rise in value. The U.S. moved up from third place in 1981 and fifth in 1980. In other words, we are the eleventh country as far as our cost is concerned; everybody else is considerably cheaper. And, there has been little done to improve the productivity in this country.

Mr Kissinger, the other day, said: "What will happen if all countries, simultaneously, start export promotion efforts, and somehow try to subsidize the exports, and then all of them simultaneously determine to cut down on the imports?" That is the question he

raised. I think it is a very valid question, because this is precisely what is happening in the world today. Of course, this is a self-defeating process.

I would like to give you some other reasons why it is difficult. You are very concerned with the "little guy": "why doesn't the little manufacturer export?" I can give you a few examples here, and this is something I think you could address yourself to and maybe do something about.

The items I am going to refer to are merely random samples, and they are what I would call bureaucracy.

The first one is that everybody, the minute they get into the export business -- and it doesn't matter whether they are large or small -- has to file all kinds of reports, including, for instance, a boycott report, which is very lengthy. Quite a few New Jersey companies, some of them very small, have received very heavy penalties for not filing a boycott report. I think if a small company, for instance, received a $19,000 penalty for not having filed its boycott report properly -- or something like that -- they would think twice or three times before they entered the export market again.

I brought along something that came across my desk the other day, to give you an idea of this. This is a report. It is called: "The Mandatory Benchmark Survey of U.S. Direct Investment Abroad." It has 236 questions. Some of them have 13 subcaptions to answer. And, the funny part of this is, if none of this applies to the company at all, it still has to file the report.

The third item is the very tedious export licensing process that is required, particularly if a company has items which can be considered high technology items, such as pipeline or oil drilling equipment, etc. If anything, I think the national effort has been to tighten this rather than loosen it, which really means that many times we are just turning this business over to our Japanese or German competitors. Even if the Department of Commerce eventually issues an export license, it takes a very long time, many times, before they do that; and, as a result, quite often the tenders have closed and, again, the business goes to somebody else.

I would like to mention some of the reasons why the U.S. world market share is shrinking. There are out there what are called the NIC's, the newly industrialized countries. You have all heard of what is called the "Gang of Four" -- Singapore, Hong Kong, Taiwan, and Korea. As a matter of fact, the label, "Made in the Third World," is, to a large degree, replacing smoke stack America because they are able to produce at less cost, and they produce the same quality. In fact, many things they produce are a better quality. The areas which are particularly threatened are such items as steel, automobiles, railroad equipment, machinery, appliances, textiles, shoes, and apparel.

So, really, when you go out there and you look at what is happening, you will see that the third world countries are taking over a lot of the marketplace. Yet, at the same time, in the developed countries, including the United States, a new form of economy is developing, which has been called the "information society," -- in other words, everything that is based on the computer -- and this is really creating new wealth domestically.

So, I think the real issues that have to be addressed are not in your proposal. I think what can be sold, and what should be helped to sell overseas, are the knowledge-intensive products and services which are available in this country, and which are available in New Jersey to a very great degree. They are saleable.

Another area which has to be addressed is barter and counter-trade, because there are many nations out there that are unable to obtain hard currency, and the only way they can buy or sell is by insisting on barter trade. So, unless we put our companies in the position to deal with barter trade, they will have no chance to sell.

I think another point in this respect is a sensitivity to foreign needs. What I see in your legislation is, it addresses itself to our needs. But, in order to sell, we have to address ourselves to their needs, the needs outside this country; otherwise, we are not going to sell, regardless of how well-intentioned this legislation might be.

So, in the future, in my opinion, the educational level of a nation will determine their degree of success in exporting. I think you raised a question in this respect before. Maybe I can come back to that a little later.

I think items such as attendance at work are important. In Japan the work attendance, or the absence from work, on the average, is about one point six percent per year. In the United States it is about three point five percent. That is more than double Japan's absence rate. Things like that will have an effect on our pricing and our competitiveness.

I think there has to be an understanding of their needs. If you think of companies such as, let's say, Toyota, they understood our needs very well; therefore, they are successful here.

Your bill, 3135, which calls for Municipal Trading Authorities, in my opinion, will cost a lot of tax dollars and it will create new expensive and cumbersome vehicles, adding more cost and complication to exporting.

I think, instead, you should attack some existing barriers, such as the ones I mentioned here. I think you should try to make it easier for people and companies to export without the help of government. I gave you some examples of "help" by the government. As a matter of fact, the Department of Commerce, in my opinion, is already the largest government export promotion organization in the world. And, in fact, they do a good job. So, I think we should help them to do a better job.

Assembly Bill No. 3136 -- I would like to quote right from what it says. It says on the first page, line five to line ten, "Export trade has a particularly salutary effect upon older manufacturing industries which have saturated their domestic markets, and which produce goods which may be technologically outdated for the domestic market, but for which there are markets abroad in less developed countries." This is not true at all. As a matter of fact, this is a total misstatement of fact. If anything, this is where the United States is non-competitive, because these developing nations and third world nations are very well able to copy our non-high tech products -- and they have. They are doing this, and since their labor costs are lower -- and I told you we are eleventh in labor costs, so we have ten ahead of us -- they are all very well able to produce the same products cheaper. So, if anything, we have to have something special, or we have to be more advanced, but we cannot compete on this basis.

This is not going to help anybody. This is an illusion you are trying to promote.

I will give you an example. India has seven hundred fifty million people. The Indian currency is rupees. Rupees are not normally convertable into dollars. If you want to sell something to India, unless the Indians want it very badly, with their limited amount of foreign funds -- of hard currency foreign funds -- they will say, "Fine. The only way we can pay you is in rupees." What are you going to do with rupees? Nobody in the world wants to take rupees.

If you take China, I think this is one of the biggest countries and one of the biggest markets developing. As a matter of fact, India is also developing very rapidly. China has one billion people. The same thing applies to their currency. What are you going to do with their currency? The only thing you can do is to buy something in China, but they probably have very little that we want to buy. So, between India and China, you have about one-half of the world excluded to you if you are trying to take the approach that is outlined in your bill, particularly with products that we think our country is saturated with. We think they will buy them? No way.

I will give you a contrary example. Taiwan, with seventeen or eighteen million people, had a positive balance of payment of three billion dollars last year -- a surplus. Now, again, you are not going to sell smokestack America there, because they are just advanced in the ordinary industries. And, unless we can be competitive, we are not going to sell a whole lot there.

In my opinion, to help exporters finance their sales, you have all the bodies already in existence. You have the banks. You have the Export-Import Bank, and many others. I think the banks should be given a chance. They are certainly better at chance-taking. It is their business, and if they make a mistake -- and they have made lots of mistakes -- it is not the taxpayers' money that is involved.

Assembly Bill No. 3137 -- My question is, what is the purpose of a Division of International Trade if not to provide export trade information? So, why do we need an export trade information center? It seems to me that we are trying to enlarge the bureaucracy, of which we already have too much. Instead, I think if the Division of

International Trade is doing a good job -- and I think it is doing a good job, if you can measure their success -- all you need to do is to add people, give them more manpower to do a better job. But, I don't think you need to start new departments.

As a matter of fact, I would like to quote one particular item in the bill. On the second page you say that it is, "to compile information on trade assistance services available through the United States Department of Commerce and other state governmental agencies, and prepare, compile, and disseminate research and statistical studies and other information useful to New Jersey firms presently engaged in, or desiring to engage in, international export trade...", etc. In other words, you are establishing another body to hand out the same information which the United States Department of Commerce and other State government agencies are now giving out That is available and they are supposed to supply it to anyone that is interested in it. I think this is a complication and a duplication, one might say at the taxpayers' expense.

Instead, if I may make some recommendations here, I think New Jersey has over five hundred foreign companies headquartered here. This is a very unique situation for this State, compared to any other state in the Nation. So, I think they could be encouraged to become export trading companies, or to act in that capacity -- to do something for New Jersey and their own country. I think they would be delighted, and it would probably not require much of an effort to help them to do that.

I think in a way this legislation is looking for a "quick fix," and there is no quick fix because we did not get into this situation overnight. It deteriorated into this over a long period of time. So, instead, I think the real solution -- or some of the real solutions -- has to be attacked over a longer period of time. It cannot be done by signing a bill now and expecting results tomorrow. It is something that requires taking the first step, and going on taking further steps as time goes on.

The first step, in my opinion, is education. I think we have to upgrade education, not only in the area of export, as Tom Murray pointed out -- although I think that is very important too -- but

education in general, so that we can compete with the fruits of the brain power that is sold by other countries, in particular the Japanese.

Secondly, I think we have to provide fiscal responsibility, especially by our government. Now, this comes back to such things as negative balances of payments. Last year, the United States had a negative trade balance of forty-five billion dollars. That is an unheard of, immense amount of money. If we can correct things like this -- in other words, apply more discipline to ourselves and our budgets, etc. -- then we will have something better to sell, and people will be willing to pay more money, and our dollar will be more competitive in world markets.

The third item, and this really applies to industry, is, I think we have to insist on and maybe promote programs to increase the quality of production by industry. There are too many shoddy goods sold by the United States in relation to what other countries turn out.

And, fourth -- and, in my opinion, most important of all -- there has to be a true commitment to developing international relations, not only when times are bad, but as a continuous effort, because the United States and New Jersey are part of the world, and we cannot shirk our responsibility to trade with the rest of the world on a competitive basis.

ASSEMBLYMAN PATERO: Using Mr. Kissinger's statement, it seems you do not want us to do any trading of exports whatsoever -- higher exports and lower imports. That is the impression I am starting to get from what you are saying.

I would like to clear up some facts about what we would be doing. The people you said would be adding to another bureaucracy would be working within the trade division. Also, when we talked about the market in the undeveloped countries, we were using information given to us by the international trade people at the banks. So, I think there is a market out there.

MR. STRAUBE: Well, I think that unless the banks have good connections with some of their customers, by and large they have not been in the export trade field. I think there is a lot of wishful thinking here, and so far I haven't seen any banks, particularly in New

Jersey, that have done anything successfully in that respect. There may be banks going into it.

ASSEMBLYMAN PATERO: You see, that is the reason why everyone says, "Look toward the private sector." You just said the banks aren't doing as much as they should in the area of export trading.

MR. STRAUBE: As a matter of fact, I will give you another reason why it would be difficult for the banks. Assume the banks, under this new legislation, are able to invest in export trading companies, either by owning them one hundred percent, or by investing a certain percentage in them. The minute you involve the banks, you bring in all the bank regulators. In other words, suddenly that part of the export trade will come under bank regulations and scrutiny by Federal authorities, and much more information will have to be made public. Decisions will be slower. More people will be involved.

What you are competing with, for instance, are the Japanese companies, and they don't have to go through this kind of procedure. I think American export trading companies can very well be built up. In fact, they are probably already in existence, such as the foreign companies headquartered in this State, which are ideal vehicles for exporting to their home countries.

ASSEMBLYMAN PATERO: Assemblyman Rod.

ASSEMBLYMAN ROD: You mentioned red tape. Do you feel there is more red tape going out than coming in?

MR. STRAUBE: Do you mean when importing?

ASSEMBLYMAN ROD: Yes.

MR. STRAUBE: I don't know. First of all, I don't know how you would measure it. But, I think that as of this moment, for the good of the country, we are more concerned about the exporting of goods than the importing of goods.

ASSEMBLYMAN ROD: What I am driving at is this: Is there any way you can use that as a tool in order to try and decrease the red tape?

MR. STRAUBE: Yes.

ASSEMBLYMAN ROD: When you say boycott or penalties--

MR. STRAUBE: Yes.

ASSEMBLYMAN ROD: (continuing) --that is established by other countries, am I correct?

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MR. STRAUBE: No, it is our government. It is the government in Washington -- the Federal government.

ASSEMBLYMAN ROD: Under the guidelines of other countries?

MR. STRAUBE: No. This is strictly done in the United States. Nobody else in the world is filing a boycott report, except American companies. As a matter of fact, on that basis it is considerably easier to import into the United States than it is to export from the United States, especially if you have something to export that is a humdrum kind of merchandise and would be very had to sell. Because lots of other countries can make average type merchandise also.

ASSEMBLYMAN ROD: When you say it is considerably easier to import than it is to export to other countries, is that our doing, or is it because the other countries impose rules and regulations that make it hard for us to export goods?

MR. STRAUBE: Well, we would have to look at this on a country-to-country basis. Some countries impose more regulations than others. However, as I pointed out, one restriction is the currency exchange rate. For instance, take rupees. This is one example I mentioned. Regardless of what kind of restrictions the Indian government may put on imports, unless you have a way of using the rupees they are going to pay you with, you are not going to sell there.

So, these are natural barriers that an exporting company has to deal with, and over which we have little influence.

I think we are talking about incentives here, incentives you want to create in order to help the exporting trade in New Jersey. I wanted to point out that there is a lot you can do. All you have to do is to remove some of the restrictions. It would then be much easier and more people would go into exporting.

ASSEMBLYMAN PATERO: You stated before that we have many foreign companies located in New Jersey, and that we should visit them and try to encourage them to help us to export our goods overseas. What makes you feel that a foreign country would want to encourage America to compete with their country, since they also have so many economic problems? This would mean competition with their manufacturing services.

MR. STRAUBE: Take the Japanese companies as an example. In relation to their domestic business, many of the Japanese international trading companies are doing much more business internationally than they do in Japan. And, many of them are very successful in exporting out of the United States, not necessarily to Japan but maybe to third world countries. So, since they are part of this country, and they are located in New Jersey, I think they have a certain obligation. And, I think they would gladly do what they possibly could to help us export our goods.

I merely suggest this because I think these are experienced companies. They certainly have the connections. They know what does not sell in their country, and they have some leverage.

What you are asking for is to have a lot of novices come into the business with a lot of good will and enthusiasm and try and compete in what is a terribly competitive world out there. I think that is not going to work.

ASSEMBLYMAN PATERO: Also, the law that the President signed was designed to help the smaller companies which, to my understanding, the international trading companies do not want to bother with. They just want to bother with the larger companies.

MR. STRAUBE: This is not true. In fact, if you look at large companies, large companies are mostly made up of many small segments. They may have some divisions which are very successful in exporting, and they may have other divisions which don't export at all. If you look at them, division-by-division, these divisions, in many instances, may not be larger than the small companies are.

As a matter of fact, to get back to the Japanese companies, the Japanese trading companies, during the last year -- most of them -- lost a lot of money. As a matter of fact, some of them, such as Itoh, had a reduction in profit by 94% last year. There were only two Japanese companies last year that were successful -- international companies that made money. One of them was Mitsubishi. Now, why is Mitsubishi more successful than the other companies? It is because they realized that to be successful in international markets, you have to concentrate on small segments. In other words, they have developed very small business sections, specialized sections, and they have found

niches in various markets for these products. This means, in essence, they have associated themselves with very small companies that they are taking overseas and making successful.

I think the same thing can be done for the United States. In fact, if you take Apple Computer as an example, a couple of years ago Apple Computer was a very small company. So, I think many of these small companies are the nucleus, or could be the nucleus, for a very large company, particularly if it is in the right field, and if it is advanced enough to compete internationally.

ASSEMBLYMAN PATERO: Well, I still feel there is a market out there. Some of the figures we have show that in direct export growth, as compared to total manufacturing output, New Jersey -- from 1977 through 1980 -- grew 53%. I am also looking at Connecticut, which went up 72%. And, Massachusetts increased in the same period of time by 104%. So, there must be a market out there. We make the same type of goods as Massachusetts and Connecticut do.

MR. STRAUBE: Massachusetts might be a good example because Massachusetts, next to California, has a lot of computer and high-tech content. I think New Jersey has a lot of this to offer too. But, maybe the industries involved have not made a great enough effort to export these goods. And, they certainly should be encouraged to do so.

ASSEMBLYMAN ROD: The U.S. government offers incentives to other countries. I understand they are offering Honduras and El Salvador some type of incentive to allow U.S. industry to establish down there. Do you think that will have a very heavy impact on exporting?

MR. STRAUBE: I think many of these measures, particularaly the ones you mentioned, come under the heading of "quick fix." In other words, they are supposed to give an immediate solution to a problem which is very painful as of this moment. I don't think this will change the situation. If anything -- and this includes the State of New Jersey -- we need a long term policy that we must stick to. We should not attempt to react to sudden situations like this.

ASSEMBLYMAN PATERO: Thank you very much for your testimony.

As our next speaker we have Mr. George H. Becker, Jr., Chairman, New Jersey District Export Council.

G E O R G E H. B E C K E R: Good morning, Mr. Chairman, and members of the Committee. I am here in two capacities -- as Tom Murray said. I am here as Chairman of the New Jersey District Export Council in New Jersey. I have an opposite member in each state throughout the United States. We perform a public service. We are employed by the United States Secretary of Commerce for two year terms, as are the private sector members of our Council. Those from the public sector, such as Ming Hsu, represent the Division of International Trade.

Our role is very precise. It is very, very easy to understand. It is the promotion of exports in states in which we have that responsibility. We work very closely with the Federal government. We work closely with state governments. But, we are providing support exclusively to the private sector.

I really welcome this opportunity to talk with you today. I don't have a prepared statement. I would like to comment a bit on what was said earlier, as well as comment on some questions that were raised by several members of the Committee, because I think they require some clarification.

I have been involved in export promotion for over thirty years, in government and in the private sector. For the last twenty years I have been promoting the concept of export trading companies. I was with the Department of Commerce in the late 1950's. So, I certainly welcome the passage of this legislation.

As Chairman of a District Export Council, and working with others around the United States, we have a very specific mandate from the Secretary of Commerce to promote and foster export trading companies in the public sector and in the private sector. It is here that I would like to clarify some of the issues that have been raised today -- and also as they relate to the New York and New Jersey Port Authority. I might mention that on Monday, at the International Trade Conference that Tom Murray referred to, I will be moderating a panel on export trading companies in Atlantic City. The panel will have on it a representative of Mitsui, one of the major Japanese trading companies, Control Data, one of the newest of the big trading companies in the pattern of Sears, McDonald/Douglas, and others that you referred to. The Port Authority will also be there.

I look forward to a very interesting and heated discussion, because I have very strong views on the subject of public sector funds being used to compete in the area of private enterprise. I mention this in my role as Director of the State Chamber of Commerce.

Not long ago, Peter Goldmark addressed the Board of Directors after our meeting in the fall, and I asked Mr. Goldmark -- after dinner -- very specifically, "Do you consider the role of the New York/New Jersey Port Authority to be competitive or complementary to the private sector?" He said, "Mr. Becker, I consider it to be complementary." Since then, I have been arguing this point with the project director that sits on my export council, and who will be on the panel that I will moderate on Monday.

I think there is an important issue here which relates to what you gentlemen are trying to do, because while I see a great role, as Tom Murray indicated, for port authorities around the United States, I question the advisability of port authorities being in the retail end of the business.

That night, at the board meeting, someone all of you know, Horace DePodwin, former Dean of the School of Management at Rutgers, where I am also a co-adjutant professor of international business, said the same thing to Mr. Goldmark: "What role do you see for the Port Authority in the retail end of the business, working with small companies in the State of New Jersey, when there are private sector firms that are able to do it?" I see a facilitation role for the government. I see a facilitation role for port authorities across the United States. But, I do not see a role for port authorities to use public funds, quasi-public funds -- however you want to refer to them -- and compete in the private sector if, in fact, the private sector can do the job.

I would just like to leave that thought with you because I know it is going to come up later on when the enabling legislation in Albany and Trenton is acted upon by the Legislatures of the two states.

ASSEMBLYMAN PATERO: Excuse me. With regard to that, while we are still on the subject of the Port Authority, would the Port Authority be using their own money, or would they be going to the banks for financing -- such as the State of New Jersey seeking non-taxable bonds?

MR. BECKER: As of this moment, the Port Authority is using Port Authority funds. They are contacting small and medium-sized companies around New Jersey, and obviously in the State of New York. This is fine as long as they play a complementary role rather than one that is competitive with private enterprise.

With respect to the subject of financing, which I think is the most important issue that should be addressed here today, if the Port Authority is going to be acting as a bank actually involved in the financing of exports, I think that is something that will have to be specified in the enabling legislation, because it is my view -- and I have been advised by counsel in the private sector -- that the present statute does not permit the Port Authority to do that. So, that is a question that the Legislatures in Albany and in Trenton will have to address.

I see the export programs in the State of New Jersey -- whether they be coal exports or fish exports -- doing a great deal with respect to what we have in the State of New Jersey, but on a larger scale. We should not be involved in direct one-on-one competition with the private sector -- with companies such as Win Straube's Pegasus International. Mr. Straube is a real professional in his field. He has been in it a long time. He knows his business. The people in the Port Authority are not qualified to the extent that the private sector is when it comes to specific, hands-on export promotion and the handling of international transactions. As I said, I have been in this field for over thirty years and I don't know of anyone in any port authority around the country who has been in the private sector long enough to familiarize themselves with all the aspects of international trade. Maybe they can develop it, as Tom Murray said, later on. They certainly have the resources to do it, but in my opinion they do not have the expertise to do it at this point in time.

ASSEMBLYMAN PATERO: If the Port Authority starts giving out loans, what regulations would they come under?

MR. BECKER: That is a very good point. I am assuming that this is the kind of issue that is going to come up when the enabling legislation is before the bodies that will consider it. I have been advised, as a matter of fact, by a legislative counsel to our

committee, Gill Macina. He may be here during the course of the day. He looked into this and he talked to the Port Authority and their legal people. There is a question as to whether or not they have the legal authority to do what they are doing right now, using funds for this reason. I think that is one of the reasons why they are seeking the legislation.

I can't answer that question. I am no lawyer, and I don't profess to be one, but I do know the private sector role here. And, I have very strong feelings, as most people who know me are aware, on this subject -- as to what public entities should or should not be doing in the area of international trade.

ASSEMBLYMAN PATERO: I have to agree with you, because I want to make sure there is some protection for the funds from the Port Authority. I am sure the banks would only allow so much of their funds for trading companies such as this.

MR. BECKER: You mean the Port Authority Trading Company?

ASSEMBLYMAN PATERO: Yes. I mean, right now the banks put a certain percentage of their money into trading companies, I believe.

MR. BECKER: There are several statutes that apply to this. Some people are confused on this issue. Trading companies with bank participation have existed for some years. As a matter of fact, one organization was set up in the Midwest over five years ago. As long as a bank does not invest in a trading company to an extent greater than five percent of the capital of the trading company, it is different from the Federal legislation which refers to bank holding companies and banker's banks being able to establish, through holding companies, one hundred percent, wholly-owned bank trading companies. But, for years, under the Federal Reserve, they have been able to take minority positions in trading companies, and they have done so. Provident Mutual did it in Philadelphia. The two largest banks in Minneapolis did it over five years ago. So, there is nothing to prevent banks from doing that.

ASSEMBLYMAN PATERO: But I was referring to the five percent that you just brought up.

MR. BECKER: Okay. The thing that disturbs me -- and frankly my colleagues in the Department of Commerce are a little bit

disappointed also since the passage of the legislation last fall, Mr. Chairman -- is that to date only five banks in the United States, I believe, have expressed a real interest in establishing a trading company. And, friends of mine tell me that the largest bank in the United States, the Bank of America, which indicated it would set up a trading company with a capitalization of ten to twenty million dollars, may not be that serious about going ahead with the capitalization of such a company.

Frankly, while I had hoped that the banks would have been more aggressive, I do not feel that banks are staffed and qualified to operate trading companies. They are qualified to provide the funds, however. And, this is the only point on which I take exception to what my friend Win Straube said when he said leave it up to the banks, they are prepared to take risks. That is just the opposite of what banks do. Banks are not there to take risks. If you talk to any director of any state or federally chartered bank, they would tell you that is not their business.

In January, we held our first conference on the subject of international export trading companies in New York. Over 500 people attended. I, and others, attended a press conference afterwards, and the Undersecretary of Commerce said to someone from the New York Times who raised the issue about what banks might be expected to do, that, "If the banks would take a harder look at what could be done for the country through this new legislation on export trading companies, as opposed to what they did last year in terms of loans to eastern Europe and elsewhere, I think our export program would be further along than it is today." And, here we are six months later, and I am advised that only five banks in the United States have really taken this step.

I, as a private citizen, made a specific proposal to one of the major banks in New Jersey. They liked the concept, but very frankly they backed off because they just didn't know what to do about it.

ASSEMBLYMAN PATERO: In talking to other people, their gut feeling is that the banks of New Jersey are too conservative.

MR. BECKER: Bankers are not entrepreneurs. To be successful in a trading company, you must be a risk-taker. And, another point I

would like to leave you with, Mr. Chairman, is that I spent some time a few weeks ago with one of the largest private trading companies in the United States, which is a wholly-owned subsidiary of Combustion Engineering, the multi-billion dollar company, based in Stamford, Connecticut. They have their own trading company, known as Combustion Engineering, "CE" Trading Company, which does three hundred and fifty million dollars a year in what we call counter-trade alone. Win Straube referred to that. The old term is barter. The new term is counter-trade. They do three hundred and fifty million dollars in projects that relate only to combustion engineering business around the world.

In a very recent case, they were involved in a big project in Brazil. They had to take five million dollars in shoes from a consortium of manufacturers in Brazil. They did it. They managed, through the European-American Bank in New York to lay those shoes off into the wholesale and retail structure of our economy and they made money on all three sides of the transaction. Commercial bankers know nothing about this. That is why I want to emphasize the point that was made earlier. If you staff up for such an authority-- And, I want to mention here that I served on Governor Byrne's Commission that led to the recommendation for the Department of Commerce and Economic Development. As a matter of fact, I wrote the section on international trade that led to the creation of the new division of international trade within that department. If you are going to have an authority, to go back to your point about how many people are needed, I don't care what the Governor's salary is, you need a few people, but pay them well.

Let me give you a very specific case in point. The most successful trading company in the United States is known as FIBRO. That is the acronym for Philips Brothers. It used to be a part of Englehart, Mendelssohn Chemicals. It was spun off, as you know, a few years back and now it is listed on the New York Stock Exchange and it is one of the twenty-five largest companies in the United States. Here is the best collection of professionals in the United States. And, not long ago, someone in Connecticut who was looking to hire a professional trader went to the trading company, Combustion Engineering, and said,

"Could you recommend some people?" The answer was, "Yes, but you couldn't afford them, because each man at FIBRO, who has nothing but a little black book into which he records his transactions, like a specialist on the New York Stock Exchange, makes over one hundred thousand dollars a year, and these are people who know how to trade."

If we are talking about a public entity that is going to be involved in trading, then you are talking about a highly specialized type of individual, of which there are very few. There are also very few people in the State of New Jersey who are qualified enough to manage any kind of export trading authority, whether it is going to be in the public sector or whether it is going to be a quasi-public entity.

I would like you to clarify one point for me, Mr. Chairman, if you can. When we prepared the report for the Governor on the new Department of Commerce, at that time we were briefed on the fact that the EDA in the State of New Jersey is considered of but not a part of the Department of Commerce. Is this what you have in mind with respect to the authority? The language says it would be a part of the Department of Commerce, which implies to me -- unless the Civil Service statutes would be waived to do this -- that it is something different than the EDA that already exists. Could you comment on that?

ASSEMBLYMAN PATERO: It is a separate authority in the Department of Commerce.

MR. BECKER: All right. It would not be burdened then with the restrictions of Civil Service and things of that sort?

ASSEMBLYMAN PATERO: No.

MR. BECKER: All right. Fine.

ASSEMBLYMAN PATERO: I have one other question. I hope you can answer it the right way. (laughter)

MR. BECKER: I am not concerned about my comment concerning the banks.

ASSEMBLYMAN PATERO: You said that the banks are reluctant to move into this fast.

MR. BECKER: It is obvious that they are. And, by the way, I have talked to the big city banks in New York. I have talked to Chase, and they are studying the situation. Well, good for Chase. Six months later, and they are still studying it.

ASSEMBLYMAN PATERO: Well, who do you feel should do this then?

MR. BECKER: I beg your pardon?

ASSEMBLYMAN PATERO: Who do you feel should do this, trading companies?

MR. BECKER: First of all, some of them exist. I feel there is an opportunity in the private sector for new trading companies to be organized.

Now, I am not talking about what Sears is doing or what General Electric is doing, because basically General Electric has 700 distributors to start with. In my opinion that is just a restructuring of an organization that already exists, and General Electric just happens to be our number one exporter. So, that shouldn't surprise anyone.

Sears is going about it for very obvious reasons, because in recent years they have acquired insurance companies and they want to be in the international service business to a degree; whereas, before they were not.

But, there are opportunities in the private sector, if the funds can be made available. And, this is the key thing. Because I have talked to Wall Street firms about a public offering for an export trading company. They said it was too much of a start-up situation and there was too much risk involved; therefore, they could not go that route. Some venture capital firms may be willing to do it if the right people can be brought together.

I can tell you that there is a lot of activity, Mr. Chairman, in the private sector. How quickly this will lead to the organization of new and potentially successful trading companies, I really don't know. But, I do see a role for what you are proposing. Whether it is a separate authority or no matter how it is structured, the key thing here, both at the national and at the state level, is the need for awareness. Because until the small and medium-sized company is more aware of the problem-- And, the problem is really acute. As Win Straube pointed out, we had a trade deficit of forty-five billion dollars last year; it is going to be higher this year. And, strangely enough, for the first time in the history of the United States, the

single most important factor in a sustainable economic recovery in this country over the next eighteen months will not be interest rates, and it will not be all the other things we read about in the Wall Street Journal, but if you check with the authorities they will tell you it will be the magnitude of the trade deficit of this country over the next two years. So, something must be done there.

So, this authority in the public sector can bring about the greater activity which is needed, and in my view possible in the State of New Jersey. Because we do have companies here that can compete around the world. That is my business. I work with companies in specifically exporting products and services outside the United States. It can be done in New Jersey. And, I think this concept, whatever the final format might be, could be very, very constructive and very useful.

ASSEMBLYMAN PATERO: Assemblyman Rod?

ASSEMBLYMAN COWAN: You mentioned Combustion Engineering.

MR. BECKER: Yes.

ASSEMBLYMAN COWAN: They seemed to get into the trading business.

MR. BECKER: They are in it in a very big way.

ASSEMBLYMAN COWAN: Would you just state, basically, what that business is?

MR. BECKER: The parent company or the trading company?

ASSEMBLYMAN COWAN: The parent company.

MR. BECKER: The parent company, as you know - on a worldwide basis -- is into everything from building nuclear power plants to other types of major engineering projects. And, when one is involved in large-scale projects around the world -- because often a company is building plants in the third world, in less developed countries -- one has a problem with respect to the payout. First of all, it is always long term. And, certainly, you have a foreign exchange problem on a case-by-case basis, whether it involves Brazil or another country.

So, every time a company, such as Combustion Engineering, goes after such a project, they must be mindful of this -- and this is becoming more and more prevalent today -- they must be willing to accept products or services in lieu of hard currency for some of thet

products or services they are supplying to a government, since it is usually a government they are supplying. In this case -- the most recent one with shoes -- they were prepared to take and resell through normal, commercial channels just about any conceivable product that may have been offered in exchange.

ASSEMBLYMAN COWAN: By necessity, they formed an adjunct trading company?

MR. BECKER: Absolutely.

ASSEMBLYMAN COWAN: Because of their marketing throughout the world -- their own marketing originally.

MR. BECKER: That's right. But, they are using a trading company as a vehicle to create additional profits and take advantage of opportunities that to others might not present the same kinds of opportunities. And, in that area you have to have very talented people.

ASSEMBLYMAN COWAN: People who have the expertise to do something with this. It wasn't the original company itself that had the expertise to do this.

MR. BECKER: No, that's right.

ASSEMBLYMAN COWAN: It became an adjunct out of necessity, and it was better than rupees.

MR. BECKER: They are taking advantage of changing market conditions and different demands in the market place.

ASSEMBLYMAN COWAN: That is better than just going into India and picking up rupees.

MR. BECKER: Exactly. Win Straube is absolutely right. With few exceptions, you can't do anything with them.

ASSEMBLYMAN COWAN: Well, if we go out and get the experts, it can be done.

MR. BECKER: One other thing, Mr. Chairman. You mentioned high technology. This is a business with which I do most of my work nowadays. Much can be done here in New Jersey. You know the Governor has appointed a High Technology Commission. You know that we have within the Bell Labs structure, as well as within the universities and many high tech companies, great potential in the State of New Jersey.We can do more. But, I can assure you, as was pointed out earlier,

that the reason why Massachusetts has done so well, in terms of a percentage increase, is because of what they have done up there off Rt. 128 in Boston, and that has been going on for twenty years, since Digital Equipment Corporation was spun off by MIT. That is the kind of thing we can do here in New Jersey as well. It hasn't been done to the extent it was done in Massachusetts however.

ASSEMBLYMAN PATERO: That is another subject. You are talking about high tech. Do you think we can break into a market that the New England States already have -- such as Massachusetts, etc.?

MR. BECKER: This is the market I work in every day. It is the same market, whether you are talking about Digital Equipment Corportation, Data General, Wang, or the other companies that are well known in Massachusetts, or the high technology, computer-related firms located in New Jersey. It really doesn't matter. The technology is available for all of these companies to take advantage of and utilize. It is just a question of being more aggressive in foreign markets.

I think we could do more with the existing structure we have in New Jersey, such as Bell Labs and the university complex, by doing what Research Triangle did down in North Carolina. I think this is one of the things that will probably come out of the Governor's Commission on High Technology.

ASSEMBLYMAN PATERO: I have a little mixed emotion on that.

MR. BECKER: Well, I agree with both sides because while you can do more there, the biggest problem in a State like New Jersey is, "What kind of new jobs can you find for those who have been displaced from conventional industries and who cannot be trained to take these jobs in the short term?" That is the real problem. The other one is going to flow naturally, simply because the markets overseas are growing at such a rapid rate that the opportunities will be there. The problem is, how to train the "smoke-stack" people to do something else.

ASSEMBLYMAN PATERO: Okay. If there are no further questions, thank you very much,

The next speaker is Steve Bisenius, United States and Foreign Commercial Service, United States Department of Commerce.

S T E V E B I S E N I U S: Good day, Mr. Chairman. I hope my voice holds out. I do have a bit of a cold.

I certainly appreciate the opportunity to be here. As a former state legislator, I appreciate the interest that legislators have shown in supporting international trade promotion actively. We are getting more response throughout the country, as we have thirteen other counterparts throughout the United States actively working with the states to see what they can do in order to add legislative involvement to international trade.

Speaking for the International Trade Administration, we certainly do appreciate it, because it is going to require everyone to take a role and get involved in order to further trade promotion. Since there are only twelve percent of U.S. manufacturers involved in exporting today, this is going to require effort on everyone's part.

When I first received the bills you are working on today, I passed them on to the General Counsel's office of ITA, and they went through them in order to examine them for any possible violations of GATT. We do have certain international obligations that even the states have to recognize.

A-3135 and A-3136 do not contain a violation of the GATT, unless international trade bonds are issued, which are a clear violation.

It is the same with A-3138, tax credits appear to be a subsidy which are prohibited under Section (e) of the Export Subsidies of GATT, which states, "The full or partial exemption, remission, or deferral of specifically related exports, or direct taxes of social welfare charges paid or payable by industry or commercial enterprises." So, those would encounter some problems. However, because of the possiblity that this could be applied to domestic income, it might slip through.

A-3014 -- the resolution would have no legal effect, as it is not legislation. And, of course, A-3137 -- the information service is not currently permissible by governments.

Going back to the export trading companies themselves, I would like to talk a little bit about what an export trading company does. When the Act passed Congress, it clearly did not prohibit any local or state government from becoming involved by forming or operating their own export trading company. But, much of the intent

behind the passage was to remove any legal restraint from the private sector which prevented U.S. companies from competing on an equal basis with other countries -- principally, this was the Anti-Trust restraint. This legislation allowed private companies who might be competitors, domestically, to become partners overseas by pooling resources and market expertise, as well as the capital resources and financial management capabilities of a bank.

The ETC's could then operate and compete through an economy of scale, as well as have access to the capital requirements which are needed for exporting. The key factor, the economy of scale, is what has been missing. For years, we have had export management companies which have been very small. They have not had the volume which is necessary to make them successful. Nor have they had the capital requirements. We certainly hope the Export Trading Act will help to provide a catalyst for that.

Since January, the U.S. Department of Commerce through the U.S. and Foreign Commercial Service -- their district offices -- has held over forty conferences throughout the United States, to explain this Act and its opportunities. To date, almost 11,000 people have participated in these conferences, and already several are talking very seriously about forming an export trading company. We expect several to file a certificate as early as May or early June, which is the earliest time we can receive them. This is principally because of the regulations governing the comment period.

What we are seeing now with the export trading companies -- we have alluded to several of them by name -- is, they are being formed by companies who have had many years of international experience already -- mainly by handling the products they have manufactured -- General Electric, Control Data, etc. Sears Roebuck has dealt over the years with over 12,000 manufacturers, and they are now setting up trade, with offices around the world. They already have thirteen locations, including Brazil and Singapore.

Among banks, the Bank of America and the First National Bank of Washington have recently announced. Several others, even in the Washington area, have indicated strong interest in and strong consideration of this type of trade. But, all these companies will be

seeking out other companies to fill out their line, and to help go along with the economy of scale. Because while the previous Anti-Trust Law prevented General Electric from picking up a small electric company to handle their goods, this legislation waived that. Once a certification is in place, they can begin to carry that line for them overseas. That is one of the important things. They can deal together when setting price, as long as it is strictly for overseas. It cannot apply locally. It is mainly on major products, which is the disadvantage the United States has had over the years. Of course, by setting up these marketing networks, it is much easier for smaller companies to suddently be plugged into this.

The question arose -- and, of course, we certainly appreciate your interest -- about how state and local governments could play a critical role in enhancing exports and job opportunities. I have some studies before me: The American University Study, as well as George Washington University's, "Export Financing for Small Businesses," and "The Export Credit Financing; a Cost Benefit Analysis to the Federal and State Treasuries." These reports are based on interviews and surveys of U.S. companies who have recently lost sales in the international market. Even through they produced a product superior in quality and superior in price to other countries, they lost sales due to the lack of competitive financing.

The access to capital for exporting is very difficult for small and medium-sized companies. Some of the small companies we have had experience with have an entire working capital of under twenty-five thousand dollars. The best rate they are able to get, therefore, is the best commercial rate -- say twelve or thirteen percent -- at a time when their foreign competitors can come in with a package at eight or nine percent. So, obviously, the net result is far less competitive when you consider the terms involved. So, they have lost sales repeatedly.

These studies demonstrate that if the state and local governments could use their credit strength to help guarantee the loans, the interest rates could be dropped as much as four percentage points.

It is this kind of action that can play an immediate role in consumating more international trade sales for the U.S.

Several states are considering this approach. Just last week the State of Tennessee voted out of their full committee, by a vote of twenty-five to zero, a very similar bill, which would establish an export financing authority. Approximately twenty other states have various similar proposals under consideration.

The City of Philadelphia and the Port Authority of Philadelphia will be forming an export trading company with the private sector, to be run by the private sector. They emphasize repeatedly that they realize flexibility is more in tune with the private sector and they will use whatever resources they have to enhance that effort. They indicated that they will be aggressively seeking out companies in the five-county area around Philadelphia.

The State of Iowa is acting as a catalyst. It originally talked about forming a state export trading company, but the Governor indicated that it was far more effective to act as a catalyst to bring together manufacturers, transportation companies, and a large bank. They just announced formation last week.

So, there are many directions that a state can take. But, wherever possible, we recommend using existing structures, whether they are existing financing authorities, existing trade departments, or existing exporting networks. It is far more effective to plug into something that already exists because the experience is there and the knowledge is there.

We mentioned Philbro. Philbro has been around, through commodity sales, for almost one hundred years. They have satellite communications. They have locations in almost fifty spots throughout the world. They are very, very sophisticated.

You know, if a private export trading company, Mr. Chairman, does not come in and take up the slack and represent the small companies, there is another alternative, and that is for state and local companies to possibly consider contracting out the services of a private company. That is a possibility, certainly, because they are the ones that have set up the organization and have the years of experience and the years of knowledge. Dollar for dollar, it may be much more cost-effective to act upon their results and their networks throughout the world. Most of those people have hired foreign

nationals. They have their marketing distribution. I talked about General Electric, with 700 distributors. It is the same with others. They will make it. It is just like Sears, they have a reasonable chance to be very successful in this. They are going to try, wherever they can, to find a product they feel they can make a profit on and market successfully, and they will pick up that product. This is principally what we are trying to emphasize.

In conclusion -- and then we can open this to any questions you might have -- the formation of export trading companies in this country, we think, should go a long way towards enhancing exports from this country. I believe that at this time the formation of state and local ATC's may be premature until we see just how the private sector might act on this.

As we indicated, the legislation deliberately does not exclude anyone, state or local ETC's from forming. But, the point is, we should see how they react and see if they will come in to pick up the slack for the small and medium companies -- the twenty to twenty-five thousand small and medium-sized companies that we estimate do have products that can be competitive overseas. We think private corporations will come in and pick those up. But, if they don't, there are several options to examine later on.

We think the role that can be played more immediately certainly is to supplement the role of the banks and others who can finance the smaller sales. Export financing guarantees, for example, are a very responsible role for the consumation of these international sales. Without competitive financing even the best marketing, the best international marketing done by these other companies -- the best produce, or the best price -- will simply not be enough.

If you have any questions, I would be happy to answer them.

ASSEMBLYMAN PATERO: With regard to one of your statements, where you said companies would help to assist other companies to export, why would a General Electric want to help a domestic competitor by assisting them to export the same products they make?

MR. BISENIUS: Well, it wouldn't be the same product, as much as it would be a product in the same line -- a lot of semi-conductors which they wouldn't manufacture. A lot of times they have their

marketing network overseas, and they find an opportunity to sell something they do not manufacture. This is an opportunity for them to sell the line, make a profit on it, and go through the economy of scale. Certainly, they can make more of a profit by having the same personnel handle those sales than they would by having another person set up that operation.

ASSEMBLYMAN PATERO: Okay. I also would like to ask you the same question we asked the first speaker. We have been told that one of the obstacles to development of an export trade has been the lack of the availability of funds and the reluctance on the part of banks to provide adequate financing. Can you comment on that?

MR. BISENIUS: There is no question about the shortage of capital, witness these two studies and others. The access to good capital is part of the problem. If a small company cannot get capital to pay for the financing-- Because it takes longer to be paid for an international sale than it does a domestic sale; it might take 60, 90, or 120 days to be paid, and if that is the entire working capital for a small company, obviously he has no chance. But, if a bank can help provide the financing through someone else sharing the risk -- and that is principally what we are looking at, an insurance as well as an underwriting to guarantee that they will be paid -- the bank is more likely to put the capital up at a much more reasonable, competitive interest rate.

As you have mentioned several times, the banks have other people's money on deposit and they have certain responsibilities and regulations through Federal Reserve and others to protect that money as best they can, so they want to ensure that money will be paid back as quickly as possible. That is where the states and others come into it, to help guarantee that the money is paid. So, banks can play a critical role, in conjunction with the State and local governments.

ASSEMBLYMAN PATERO: Well, we are going to have to depend on the banks.

MR. BISENIUS: There is no question about that. Also, the banks can play a very critical role in exchange rates and currency. There is no question about that level of expertise. And, they work principally through their own networks. They have a cooperation basis

throughout the world. Many of the banks have outlets throughout the world.

ASSEMBLYMAN PATERO: Based on the testimony I have heard so far, it seems the banks are a little reluctant to go into this field, and that is why I think it is important that, maybe in conjunction with the State, the banks might work closer with the State in order to get into this field.

MR. BISENIUS: Well, I think the banks certainly are an alternate field. They understand the banking business. They understand loans. They understand foreign exchange. But, actually, international trade is a new field for them. Many banks in this area have international departments. But, groups which form international trading companies use their expertise to purchase an export management company.

First National of Boston got into it, but the person who runs the world trade group of Boston is not a banker. It is owned by the bank, but it is not run by a banker. And, he is more willing to stick his neck out. He understands risk and that type of thing.

I think if banks would move in that direction, they might think it is much more realistic to take it on, because they are basically very protective of the assets they have. That will be an interesting example to watch -- the First National of Boston, and what they do. And, other banks also, as they see what their competition is doing, are going to go after it.

ASSEMBLYMAN PATERO: One other question. In December of 1982, the Federal Register announced that the United States Department of Commerce would issue guidelines for the formation of trading companies this spring. Have they been issued yet?

MR. BISENIUS: The regulations have been put out, I think it was two weeks ago -- the final regulations and the comment period will be in soon so that the first certificates can come in. If you would like a copy of those, I can get you the latest regulations.

ASSEMBLYMAN PATERO: If you would, you can send it to our staff.

MR. BISENIUS: Very good. The comment period should be in. The General Counsel's office announced last Thursday that they expect everything to be completed by the third week of May.

ASSEMBLYMAN PATERO: Fine. Are there any further questions? (no response) Thank you very much, Mr. Bisenius.

MR. BISENIUS: Thank you very much, Mr. Chairman.

ASSEMBLYMAN PATERO: The next person to speak is Mr. Adam Broner from the Office of Economic Policy.

A D A M B R O N E R: Thank you, Mr. Chairman. I would like to say that although I also serve as secretary for the Economic Policy Council, sometimes I am associated, or I should be associated with--

ASSEMBLYMAN PATERO: And, you do an excellent job too.

MR. BRONER: At this time I would like to state that I am appearing here in my own capacity, as a person who has done a little work in this area, and not necessarily representing the Economic Policy Council. The reason I state this is, I did not have the time to go through the normal procedure and clear with the Council all that I am going to say here.

I have to say that I am very glad that there is so much interest in this subject. As you probably recall, some four years ago we issued a report on this subject, with some studies and recommendations concerning it. We see now that the issue is picking up, and that is very good. That doesn't mean that in the meantime nothing has been done. There is probably room for much more activity.

What I would like to do today is to refer you back to that study, in the sense that I have extended the analysis a little bit to include the latest information I could obtain from the U.S. Department of Commerce. I would like to show you what has happened since 1976, which is the last year that was covered in the annual report of 1979.

Today we have numbers for 1980 as well, so I will give you a little bit of the present picture and what the story is now.

At that time, New Jersey-- I am talking about manufactured exports only. We do not talk about services; we do not have good statistics on that subject, although probably it is a growing industry that we should, at some point, look at also. But, so far we only have numbers that deal with the manufacturing sector exports, and the story is someting like this:

In 1976, 5.8% of the total shipment of manufactured goods was really exported to foreign countries. At the same time, the United

States ratio was 7%. So, we were a little bit below the national average.

By 1980, our ratio increased from 5.8% to 6.4%, which was, obviously, an improvement. In the U.S., however, that improvement went from 7% to 8.4%. In other words, there was a much larger improvement on the national level than there was here in New Jersey. And, that is despite all the analyses we heard today about how the U.S. is doing, compared to some years ago, in international trade. Obviously, we are going through a very difficult period. Maybe 1980 did not reflect it, and it is possible that 1983 will look much worse for the U.S. than I am presenting here. But, in any event, the best we can do is compare our figures with those of the U.S. in order to see what New Jersey looks like.

ASSEMBLYMAN PATERO: Excuse me.

MR. BRONER: Yes?

ASSEMBLYMAN PATERO: Even though the United States had a low export rating in the past, don't you think that the United States felt it had a domestic market so it shouldn't be so concerned about exporting? What do you think the reason was for our being so low in exporting all these years?

MR. BRONER: I think this is a feature of all large countries. I did a dissertation on the trade of the Eastern European counties and the Soviet Union, and I looked at other countries as well. It is a general rule that larger countries participate much less in foreign trade, percentagewise, than smaller countries do. Belgium is given as an example. Probably somewhere in the area of 40% or 45% of their national product is being exported.

This is true for most small countries, who have high ratios, and it also true for larger, or very large countries, such as the United States, who have smaller percentages. But, that does not necessarily mean that the 4% or 5% that the U.S. has -- or, it is now a little higher; I am talking now in terms of employment related to exporting -- is the best percentage bracket we should be in. We probably can be, and should be, higher.

ASSEMBLYMAN PATERO: Now, getting back to the second speaker, Mr. Straube, do you feel that we should not pursue the foreign market?

He used Mr. Kissinger's statement, that everyone wants to increase their exports and lower their imports.

MR. BRONER: I frankly didn't understand the Kissinger statement, although if he just expressed a concern that everybody wants to export and nobody wants to import, obviously there is a conflict there and it cannot be done that way. But, I think the practice is such that everybody wants to export and import and, therefore, foreign trade is developing.

ASSEMBLYMAN PATERO: But, it is your feeling that as long as people are exporting, the United States should also try to export?

MR. BRONER: There is no doubt about that.

ASSEMBLYMAN PATERO: Okay.

MR. BRONER: And, also, since we are on this subject, I think what we are concentrating on here, and for so many years before, is not necessarily the particular point in time we find ourselves in now with reference to the high dollar exchange rate which causes all these problems. A couple of years ago, we were on the other side of that coin. We were very competitive, and the West Germans were complaining -- and all the others. So, that probably will reverse itself, and the sooner the better. There is no doubt about that.

But, obviously, we are concentrating here on longer term problems, and we are looking for solutions to those problems.

Let me return a little bit to my story about 1980 and what happened at that time. To state it simply, the growth of export between 1976 and 1980 incresed in the United States by 87%. This is in current dollars, of course, and you should not attach too much attention to whether this is really in real terms. It certainly is not. I am only using that to compare New Jersey's performance against that number.

Again, what we see for New Jersey is, the growth rate for this particular period was only 66%. So, it is 66% against 87%, meaning that we are still developing that gap, that we lag behind the pace of the growth of exports in the nation, and the question is why? I don't think I have an answer, unfortunately.

I looked more carefully at this, and I looked at the particular industries. Here is the picture that emerges. We were

doing very well in several industries, and it really surprised me. I saw something that was characteristic for all industries. There is, therefore, something wrong with us -- whether it is that we don't know how to export or what, I do not know. Such a thesis obviously would not wash probably, but the first suspicion would be this: Surprisingly, many industries are doing very well, much better than the nation. Let me give you a couple of examples.

The textile industry increased exports 3.78% as against 2.9% for the U.S. So, the textile industry was much better than the U.S.

Another good example is rubber and plastics. They did very well -- over four times in increase over these four years. Those are miraculous numbers, I would say.

Primary metals: It turns out this is a huge industry -- a huge export industry -- growing in New Jersey.

ASSEMBLYMAN PATERO: You are giving two figures, a high percentage and then another percentage. Is the first figure the United States' figure?

MR. BRONER: The first figure is New Jersey's. I will leave that table with you, so that you can examine that more carefully. The first figure is New Jersey's.

Primary metals, 577 as against 375 for the United States. That is much better than the nation's.

We had a couple of problems, and when I looked carefully at the problems I found, first, the chemical industry -- the backbone of our manufacturing industries. Something is happening there which is very troublesome, I would say. Our increase in chemical exports was 27% over this period. Again, I have to repeat here that this is in current dollars, so probably in terms of actuality there is no growth, or it has probably declined.

The U.S., in the chemical field, 203 -- which means a doubling of the exports over that period of time against our 27%.

We lost in the transportation equipment industry -- automobiles and airplanes. We don't have the airplanes, but others do. The U.S. increased 67% of that export. Ours is in decline by over 50%. Presumably this is due to the Mahwah plant closing here and also other plants' exports, in 1980, fall far short of what they used to be.

ASSEMBLYMAN PATERO: Of course.

MR. BRONER: What I am leading to is the following: If we take the chemical industry alone and we just follow the national pace of exporting, additional exporting would be in the area of $500 to $600 million dollars for 1980, with an impact on employment, both direct and through other supporting industries, in the neighborhood of 12,000 jobs.

The transportation equipment industry declined -- an actual absolute decline of exports -- by $120 million over these four years. That caused us to lose between 1,000 and 2,000 jobs which were related to export in the transportation equipment industry, and supporting industries.

The final point I am making essentially is the following: Maybe all the efforts of the State institutions and the private sector were very successful in those other industries -- in most other industries -- and only because of these two or three industries that did not keep up with the pace on the national level, all the gains that we made may have been wiped out. Moreover, the overall result is such that we are still lagging behind.

I looked more carefully at the chemical industry. I wanted to find out what caused it. I don't think I have the answer. I did it very quickly -- yesterday and this morning. What was interesting, however, was the sub-industries in the chemical field that do a lot of exporting. Those industries in New Jersey outwardly declined overall. They outwardly declined and employment declined.

We have increased in two industries that I have selected. One of them is the drug industry -- the pharmaceutical industry -- in which we have an enormous share of the national output and employment. In this industry we have increased somewhat. But, that is the type of industry that does not export much. The entire export of the drug industry is $2 billion.

So, what happened to the New Jersey chemical industry is that we lost ground in those parts of the industry that are related to exporting industries, and we had some increases in industries that are not exporting much.

That is a way of explaining, in a preliminary way, what is happening to New Jersey's export performance.

I probably should go into the bills a little bit. I see them as addressing three issues essentially. One is the general issue of assisting, in all possible ways, the small and medium sized manufacturers to export. And, when I say assisting, I really mean from "A" to "Z". I have always recommended this approach, not the approach that was mentioned here a couple of times -- that the small businessman has to go to "this agency", or to "that forwarder", or to "this bank", etc. I think that too much effort would be required for him to be willing to undertake this task. So, I always advocated some way of consolidating all those services that assist him, from "A" to "Z".

What I mean by this is, we should find out whether his product is exportable and where the market for it might be, up to -- as you list in some of these bills -- translating, if need be, from one language to another. This is one area, and I always supported it. I still think it is needed, and there is a contribution the State can make in this area. How to shape it is still an open question, and more thought should be given to that. Certainly, with all the cooperation the State can get from the U.S. Commerce Department, our Commerce and Economic Development Department, private industry, and everything else that is available, all of these should be combined, taken into account, and organized in such a way that when a small businessman comes in, or better still if we go out and find him, we should be able to offer him a full service, from "A" to "Z".

ASSEMBLYMAN PATERO: Just like a "one stop shopping"?

MR. BRONER: Something like that, yes.

The other area you are addressing is financial assistance of all kinds. I have to say I have a little trouble with that -- or quite a bit of trouble with that.

ASSEMBLYMAN PATERO: Maybe you should finish right now, Adam.

MR. BRONER: No.

ASSEMBLYMAN PATERO: I am only kidding, proceed.

MR. BRONER: No, I am not going too far with it. I want to offer you something just to see whether this is a way to do it. I am not sure, but I just want to bring it to your attention. It was brought to my attention by someone from the U.S. Stock Exchange who is a member of our council. It is an interesting idea. I have his note

here. It is a story from the London Financial Times. It will sound like a joke to you, but it is not. It talks about our neighbors across the river, in New York State, creating a bank. It says: "New York Moves Ahead on State Export Bank." They are talking about capitalizing on the part of the State in the amount of $25 million, attracting some ten times more from the private sector, and creating a bank of something like $250 million. Well, if they can do it, it starts to make sense to me. A bank has to be a bank. It has to have money and really be able to operate and offer all the finances. I will leave this with you. Probably there is a need to follow up on this across the river to see what they are doing, whether they are succeeding, and by how much. This is in the area of financial assistance.

I would support the notion of some kind of guarantee that the gentleman from the Commerce Department talked about.

The third area I would like to mention, and then I will stop very quickly, Joe, is whether a state authority, a county authority, or a municipal authority should actually do the trading -- buying and selling. I don't see it for many reasons. Several speakers talked about the kind of expertise that is needed to do it. There is a lot of doubt as to whether the State can do it.

By the way, let me say that I do not always agree with the notion that there aren't people that can do it. In this day and age, I think we can find them, and I would not even agree with the statement that some are not even working for the State government. But, still, even if we can find the people, with all the difficulties with Civil Service -- or even outside of Civil Service -- I do not think that is an area in which State government should get involved.

Can I stop here?

ASSEMBLYMAN PATERO: Yes. Well, where the county would be involved is, if there is a factory in the county, rather than that factory going to the State, if they went to an agency that had been set up by the county board of freeholders, the county could be the liaison between the State and the company. That was one of the intentions of that provision because I feel the counties are trying to retain the companies they already have and this would just be another service they could offer to these companies.

MR. BRONER: Can I answer that?

ASSEMBLYMAN PATERO: Yes.

MR. BRONER: My suggestion would be-- I do not see anything wrong with the bill that talks about the trade information center. I don't mean this necessarily has to be in competition with the Division of Internatinal Trade. That probably should be there, or we should essentially be strengthening that Division by doing more in this area.

My suggestion would be that such a State place -- a "one stop shop" as you say--

ASSEMBLYMAN PATERO: One central point.

MR. BRONER: (continuing) Yes. That would not be wrong. It would be much better if that statewide center had two or three sub-centers, or subdivisions, one located in the south, one located centrally, and one located in the north. On the county level this would be very difficult, in my judgment. But, I don't see anything wrong with it.

I know, for example, all the southern counties cooperate very nicely in this whole area. Probably the same holds true for the northern counties. So, I don't see anything wrong with it, nor why we can't set up two or three sub-centers which would be directed from the same center that serves the businesses closest to their home.

ASSEMBLYMAN PATERO: Also, the bill does not require any trading by the State. You stated that the State should not engage in trading. I agree with you on that.

Also, a major concern is the decrease in trade for the chemical industry and the transportation industry. I can see it in relation to transportation, because of losing the Mahwah plant. But, I think it is important for us to get in touch with the chemical industry. We may talk to them and see what their reason is for not exporting. Because those are the jobs that are needed in New Jersey. We can't afford to lose those jobs.

MR. BRONER: It is also true that those industries lost some employment between 1976 and 1980, in general. That loss was not only related to exports, but they lost some employment in general. There must be some more general problem with the chemical industry. We get the reflection of it on the export side, but there is something more to it. That is why I am saying I don't have the full answer, and there is need for much follow-up there.

ASSEMBLYMAN PATERO: Maybe it is something that they don't even realize is happening within the industry.

MR. BRONER: Well, it is possible that new companies are being set up somewhere else, and ours are just continuing until they get to the point where they can't operate anymore and they scrap it -- some of it at least.

I looked at the number of establishments between '76 and '80, and we lost something like 25 or so. That does not mean too much, although one can compare it with the previous period when there had been growth. So, now we are in an area where there are some losses.

ASSEMBLYMAN PATERO: That is why I am going to recommend that the Labor Committee call in some representatives from the chemical industry to see if there is something the State can do to help them out. Because there is some reason why we can't do something for them that we are not aware of. So, I am going to make the request that we call these people in, and maybe we can help them in some way.

Are there any further questions? (no response)

Mr. Broner, thank you very much for your testimony.

MR. BRONER: Thank you.

ASSEMBLYMAN PATERO: Our next witness will be Mr. John Cole from the United States and Foreign Commercial Service, U.S. Department of Commerce.

J O H N C O L E: Thank you, Mr. Chairman, and ladies and gentlemen, I appreciate the opportunity to appear before you this morning.

By way of introduction, I have spent the last twenty years of my life either serving as a state administrator of a small loan program to aid industry, or advising other states in the administration of such programs.

I'd like to make an observation about a conclusion I have come to since I was asked, last July, to become a part of this Export Trading Company administration. I am sorry to say this, but I feel that the day of big industry in North America is over. I think the day of big steel is over. And, I think the day of big automobile production is over.

Assuming that to be a valid statement, it appears that the small and medium-sized manufacturer in the United States, in the future, if he is going to do any substantial amount of business, is going to do it not only domestically, but internationally. So, we come to the point that the Export Trading Company Act is going to be put into use. How can any state, particularly New Jersey, help the Export Trading Company Act become viable?

I am not for the proliferation of many agencies. I am not for the proliferation of authorities or for bureaucracy or for red tape. I subscribe to the "kiss theory", which is, as you may know: "Keep it simple, stupid." So, my recommendation to you today, Mr. Chairman, and gentlemen, is, within the confines of the New Jersey Economic Development Authority, which is an on-going agency in the State, you set up a loan guarantee program to help small and medium-sized manufacturers to become active in international trading through the export trading companies.

I submit to you that these funds should be set aside by the Assembly in an amount as small as $5 million, and the fund should be put into a trust fund which draws interest until it is needed. I submit to you that the loan should be made to companies. They should be secured by substantial assets, such as working capital -- or such as accounts receivable or inventory. I submit to you that asking a bank to make a loan to a small company like that is liable to help both the bank and the company. The bank is going to be more liable to make the loan if they know there is a State guarantee behind it. The company is then going to benefit, hopefully, by a lower rate of interest.

I submit to you that if the company does get into trouble, and all other remedies to collect the money have been exhausted, then the State guarantee would come into effect at that time.

I further feel that perhaps there may not be a need for any of the funds to ever be used, because hopefully we are going to be guaranteeing loans to companies that are going to succeed.

You may ask yourselves why the State of New Jersey should do this when there are other Federal agencies involved. I attended a trading session at the Export-Import Bank several weeks ago, and I would submit to you that the Ex-Im Bank is trying to gear up to make

loan guarantees for small companies, but they are so inured to making multi-million-dollar loans that I am not sure, in my own mind, that they can come to the point where they are going to make a loan of several hundred thousand dollars to a small company. I hope they can and I hope they do, but I am not sure that they will.

The Small Business Administration can make guarantees for loans, whether for export or for domestic, but their guarantee limit is $5,000, so they are restricted.

What I think I am trying to say to you this morning is that I feel there is a place for the State because it is closer to the scene of the action than the Federal government. You know your State. You know your counties. You know your freeholders. You know your companies in the State. I submit to you that if you have a small or medium-sized company in the State of New Jersey who has never gone into exporting -- if they are new to it, if they are a little bit hesitant about it, and if they don't know how to go about it -- and you can say to that company, "We are willing to guarantee you a loan from a bank for the purpose of going into exporting," I think you are then going to be able to help that company. Otherwise, you may not be able to.

I feel that we have reached the point in American where we are going to have to fight fire with fire. Certainly, we have suffered in the last year with the Federal trade deficit that we have. I think that this is an opportunity for the states to help small and medium sized companies to become active in exporting, to provide the backing they need without proliferating a State authority and putting a lot of State money into it.

With that, I will submit my recommendatins to you.

ASSEMBLYMAN PATERO: Bill No. 3136 does provide for, or arranges for guaranteed commercial bank loans.

MR. COLE: Yes.

ASSEMBLYMAN PATERO: I am a little confused with this loan business. Say you have brake linings or building materials, and you were interested in sending these items overseas -- say you had a market in Munich -- in that case, where would the loans come in?

MR. COLE: The loans come from a bank that is willing to make a loan to the company, with the backing of the State: That they will

be paid if the company fails to make the loan payment. That helps the bank because they know they are going to get their money back, one way or another. It helps the company because they should get a lower rate of interest. Steve Bisenius quoted a four percent differential. I don't think that is impossible at all.

When I was in State administration we always anticipated a spread of three points between tax exempt loans and taxable loans. That was the figure we used. I think that is very viable.

ASSEMBLYMAN PATERO: Would that loan be for the material they were shipping out?

MR. COLE: Yes.

ASSEMBLYMAN PATERO: Then once it is sold, the profits would come back?

MR. COLE: That loan would be secured by either inventory or accounts receivable. I don't think you should guarantee loans willy-nilly. I think you should have a good administration. You should examine the loan you are going to make, and who you are going to make it to. There should be new jobs provided, or existing jobs retained, because after all, that is the name of the game when you get down to the bottom line. All the things you do are really for jobs, and that is what we are talking about here today.

ASSEMBLYMAN PATERO: Well, that is the reason we are having this hearing. We would like to rush this bill through. That is why we are taking testimony. I am glad you were able to come here today.

MR. COLE: I appreciate that. I appreciate the opportunity to be here. Thank you very much.

ASSEMBLYMAN PATERO: Are there any further questions? (no response) Thank you very much, Mr. Cole.

We had scheduled a Mr. Jim Morford to testify today; however, he will not be able to make it. The New Jersey Chamber of Commerce will be submitting a report to the Committee, and as I said, we are leaving the record open for two weeks for anyone who wants to submit further testimony.

Our next witness will be Mr. Don Linky from the New Jersey Business and Industry Association.

D O N A L D L I N K Y: Mr. Chairman, I am Donald Linky, Vice President of the New Jersey Business and Industry Association. We appreciate this opportunity to speak before you, Mr. Chairman, Assemblyman Cowan, and Assemblyman Rod, concerning this important legislation, which has been introduced in the General Assembly.

We are pleased to support the efforts of this Committee to pass workable legislation which would promote international trade activities in New Jersey. We congratulate you, Mr. Chairman, and your co-sponsors, including Assemblyman Cowan and Assemblyman Rod, in focusing attention on the importance of international trade to this State.

The framework of this legislative package now before you, with possible revisions to be considered by this Committee as a result of the hearing today and subsequent testimony and materials which may be submitted to you, could become a highly effective vehicle to support and complement private sector trade activities in New Jersey.

Mr. Chairman, we intend to submit fairly detailed written testimony to the Committee, but in the interest of time I thought I would just cover some of the highlights of the points we wish to make, and to focus on some of the issues that have been brought to the Committee's attention this morning.

First of all, we believe that the concept of export trading companies deserves support in the State. We think that export trading companies could provide a very efficient means of getting more of New Jersey's companies interested in export markets. There are important economies of time, scale, and money, which could be provided to New Jersey's economy through the vehicle of export trading companies.

So, we essentially are with you in this effort to promote and expand attention toward the concept of export trading companies as a vehicle for trade activities in New Jersey.

Having said this, we do have some concern about the issue which was discussed previously, concerning whether the appropriate entity should be a public agency or a private one. As an organization of private sector employers, our natural preference is for private sector activity whenever possible. We think there are certain advantages to private sector activity over public entities in the trade

area. There is probably somewhat more confidence in the private sector due to the confidentiality and efficiency of privately-run operations over public agencies. This may be particularly true when we are speaking of a newly-created public agency which doesn't have a track record to persuade potential private clients that it can be an efficient representative in world markets.

As has been discussed before, there may always be some concern about Civil Service problems or bureaucratic questions in the structure of the agency.

So, by and large, our preference is for private entities, but we are not ready yet to shut the door on the potential role of a public export trading company in New Jersey. We say this with some caution. We feel there may be a carefully delineated role for a public agency which could complement private export trading companies, and not -- as has been suggested -- directly compete with their activities.

We feel particlarly that New Jersey has a special problem if it relies solely on private export trading companies to develop a marketing visibility for the State's products as a whole. New Jersey is naturally torn between the northern and southern regions of our State, and some sub-regions around the ports of Port Newark in Elizabeth and New York City, and Port Camden in Philadelphia, and that natural division may well lead to excessive fragmentation in private sector export trading company efforts to solicit potential clients and promote their products.

We have very little evidence so far that the private sector is going to produce an export trading company which will truly have statewide coverage and provide services for companies throughout the State on a statewide basis.

We do believe that there may be certain advantages to such a statewide entity, either on a private or a public basis. There could be important marketing advantages to going abroad with a much more aggressive and a much more targeted program to promote New Jersey's products as "made in New Jersey", with New Jersey labels under an umbrella concept. The problem with relying on individual private companies is, they are likely to promote their client's products on a company basis, and they are not likely to be concerned -- because it is

not in their profitmaking interest to do so -- to promote the State's identification and the origin of those products as a whole. So, we feel there is some advantage to a statewide agency, but we are not certain whether it should be done on a public or a private basis.

It is still somewhat early, since the passage of the Federal Export Trading Company Act some six months ago, to determine what the percise structure and composition of an export trading company on a public basis should be. We still, I think, need additional evidence concerning the status of private efforts and efforts, for example, by the Port Authority of New York and New Jersey to obtain sufficient clients in order to set up workable trading companies in this State.

There has been, as has been suggested, much discussion about export trading companies since the enactment of the Federal legislation, but it appears there has been relatively little hard action. So, we don't have much data. We don't have much experience yet in order to make hard and fast conclusions about how we should go about assessing the implications of the legislation when setting up a public agency.

We, unlike some of the other speakers here, are not ready to shut the door entirely on the concept of a public agency, and we suggest that if a public agency is created it should concentrate largely on the marketing and promotion of New Jersey's products. There may be legitimate concerns, as expressed previously, that the actual trading activity could best be left to the private sector. And, it is possible that export trading companies on the private level might well participate in some umbrella quasi-public or State agency in the marketing and promotion of their products through trade fares, trade missions, and the like.

There is one other major concern that we would like to address concerning this package of legislation. For somewhat similar reasons to our position on the public and private question, we are concerned abut excessive fragmentation of our efforts concerning export promotion. There may well be too many companies and agencies set up by this legislation, which would allow companies on a county and municipal level. As I said, we are not yet sure what the market is in New Jersey. We don't know how many companies are actually going to sign on

the dotted line and say they want an export trading company to represent them in this State, particularly due to the new situation which has been created by the Federal Act. In the past, some New Jersey banks had expressed interest in setting up export trading companies, but there does not appear to be any strong movement yet to actually set up those companies.

So, we would express some caution about allowing a proliferation of export trading companies, particularly on the county and municipal level. We feel that if this Committee determines -- and the Legislature and the Governor determine -- that the public export trading company concept is worth an experiment, then it should be tried first on the State level to consolidate our efforts, and then after some reasonable period of experience, it should be determined whether there is an additional market or need for county and municipal agencies.

Mr. Chairman, that is the conclusion of my testimony.

ASSEMBLYMAN PATERO: Don, it always seems that Business and Industry and I don't look at things the same way. It seems that Business and Industry looks at the gloomy side and I look at the bright side.

But, we do have these private agencies right now. We heard three or four people testify that the banks are a little reluctant to go into the trade export business. We do have trade export right now. Small businesses are just not going to those companies right now, because I think a lot of them are afraid to tackle the export trade.

I think if the State would come in, they would go to a state agency quicker than they would go to a private agency.

MR. LINKY: That's possible, Mr. Chairman. We are concerned that the private export trading companies may well skim the cream off this market, and that there may well be gaps in the market, particularly when smaller companies or private export trading companies, looking at their interest in making a profit, simply feel that it is just not that potentially useful for them to concentrate upon.

We are also concerned about gaps on a regional basis. It may well be that the private export trading companies will focus narrowly

around the port districts -- or narrowly around the Port of New York/Newark/Elizabeth -- and south Jersey, particularly, or the central parts of the State, may well be neglected. So, we are supporting your concern that there are still questions about whether the private export trading companies will sufficiently address the full needs of the New Jersey business community.

The problem is, it is still very early to determine whether those concerns are legitimate or not, or whether the private sector will fully service our potential market. But, we share some of your concerns.

ASSEMBLYMAN PATERO: The law did pass. I wouldn't want to be in the position to see six or seven other states move ahead of New Jersey and then say, "Gee, that is a good idea, let's jump into it now."

MR. LINKY: Well, you are very correct. Our information is that at least seventeen other states are considering legislation in this area. Utah has already created an export financing vehicle. New York, as had been mentioned previously, is moving toward implementation of the recommendations of the Blue Ribbon Task Force Report, which is similar in some respects to the legislation you have introduced.

So, we are concerned about excessive delay, but we are also concerned, I think, about proceeding too rapidly without too much hard experience on which to base our efforts.

ASSEMBLYMAN PATERO: Well, I don't feel that way, because as I said we just lost two more plants in central Jersey. It just seems that before it was every six months, and now it seems that every week we are losing plants. We lost a big one -- Burroughs. We will take consideration and comments on this, but I wouldn't want to see too long a delay on this, because I think it is important that we find markets for these goods that are produced in New Jersey.

As I said, I am really concerned about what is happening with the chemical industry in New Jersey, because we are the leading state in chemical production. We are going to sit down with them and see if maybe the State does have a problem. But, I think we do have to try and find markets for the products that are produced in New Jersey. The jobs we are losing are the jobs that are needed in New Jersey.

We have heard about high tech today, but can the people who are working in the smokestack industry do those jobs? I have doubts about that.

MR. LINKY: Mr. Chairman, we are not suggesting an indefinite delay or deferral of this legislation. We are suggesting that as you proceed, you determine from the basis of some of the comments today, just what the correct role for this public agency is, if you decide to create a public agency. It may well be it would have a somewhat narrower role than the bill, as it now stands, calls for.

ASSEMBLYMAN PATERO: Are there any further questions? (no reply) Okay. Thank you very much, Don.

Next we will hear from Mr. Gil Douglas Messina, Esq., Chairman of the Legislative Committee, New Jersey District Export Council. I am sorry to keep you waiting so long to testify

G I L D O U G L A S M E S S I N A: That's all right. I just got here, Mr. Chairman. I was afraid I kept you waiting.

ASSEMBLYMAN PATERO: You missed some good testimony.

MR. MESSINA: This way I can start with a clean slate, so to speak.

Thank you for having me today. I am a member of the New Jersey District Export Council. I am an attorney who specializes in international trade law for small and medium sized business people here in the State.

I have reviewed the proposed legislation over a period of time, and there has been a metamorphosis in my thinking as I have. I started out quite skeptical about it and then I became moderately skeptical, and now I see its good points as well as its bad ones.

ASSEMBLYMAN PATERO: Well, that's what we are looking for at this hearing.

MR. MESSINA: There has been over a period of time, I would say, a transition, generally, in the perception of what we should be doing to increase our exports. Unfortunately, we are still in the midst of the psychology in this country which favors a protectionist policy in many areas, which I think is an evil that we should try to avoid. This type of initiative at the state level is healthy, I think, because it gets away from that and looks at promoting export trade positively.

In 1981 our exports were $233.7 billion. That was 7.9% of our GNP and that was low. It continues to be low in the overall worldly scheme of things. That has to be increased.

There is a question as to whether or not financing vehicles -- loan guarantees, interest subsidies, and tax credits -- are the sort of things that would get small businesses involved in export trade. They would all be helpful to some extent I am sure, but I am not so sure that financing is the principal obstacle to small and medium sized companies getting involved -- although the President's Export Council has indicated that financing is perhaps the one serious obstacle for "smalls" and "mediums" getting involved in export trade.

New Jersey is well positioned to promote its trade, be it in the private sector or through a state initiative. We still have a solid industrial base. We have great ports. We have a developing international airport. And, there is no reason why we can't seize the moment, so to speak, and take off with it.

The obstacle that I see from my experience in the practice of international law is that small and medium-sized businesses, while they want to do business abroad -- even the healthy ones that don't have the cash flow problem, that don't have difficulty with establishing a good line of credit -- their principal problem with getting started is the lack of information. They have no place to go in order to find out where the markets are, and whether they would be competitive in selling in those markets. And, the bottom line is, "How do I get paid?" Well, the last question, oddly enough, is the easy one to answer because, in many cases, getting paid when doing business overseas is easier than getting paid when doing business here in the domestic market. Letters of credit, factoring receivables, bankers acceptances, and things like that make it easier to do business abroad in many cases than it is here at home.

So, once they get over that hurdle, they still have to find out where the markets are, and they have to find out how to price, and they have to find out how to go about tapping these markets. There is no central location where these people can go and get the information that they need. I dare say there isn't any spot in the country where that can be done.

This bill package begins to crack that nut by establishing a trade -- I don't remember specifically how it is defined, but a trade information type of office. A central clearing house of information, I think, would not only be beneficial in getting New Jersey businesses involved in trade overseas, but also in generating trade leads into New Jersey. If people overseas know that we have a central location where current trade leads are kept on computer that can be matched with a New Jersey service or goods provider immediately, and that they can be put in contact with these people overseas through the good offices of a state export trading authority, I think you will find a lot of interest generated abroad, and people are going to be coming to this central clearing house in New Jersey to get their names on file in order to see what they can do about getting linked up with New Jersey's suppliers of goods and services.

Right now, as I said, there is no central location for that type of information. Yes, the Commerce Department does obtain trade leads from abroad and they are disseminated. They do the best with what they have, but I think that whole process could be more systematized and some resources should be directed toward that to make it a real asset to the business person here in the State who wants to find out what is going on overseas.

As a matter of fact, Governor George Busbee, who heads one of the subcommittees of the President's Export Council, stated in a report he gave to the Executive Committee of the President's Export Council in September of 1982, that one of the primary initiatives of any model state program to encourage exports should be to coordinate the establishment and implementation of a state export plan. Here it was understood to be something that would initiate at the executive level and would comprise a set of goals for the state to achieve. But, in addition, he says that the governor -- the mythical governor -- would appoint an official staff level export promotion group, headed by a top level member of the governor's personal staff and composed initially of representatives of the state's international trade agency, the state's agriculture department, the state's economic development agency, the state legislature, and the governor's press office.

The governor would also appoint an export research group, composed of representatives of each of the major universities, colleges, and research organizations involved in international trade research.

What that indicates to me, at least from Governor Busbee's experience with his subcommittee, is that the important thing is to gather that information. Whether it is done this way or in some other way, the information has to be obtained and it has to be accessible to the public.

The bill itself appears to provide -- when I say the bill, I mean the municipal and county programs as well as the state program -- one stop shopping for the exporter. I think that concept is a good one. The question is, how will that impact upon the private sector's ability to support private export trading companies? Well, in my estimation this state concept can fill the void that even a healthy private export trading company industry would probably have difficulty filling, and that is, again, in gathering the information, centralizing it, and even building an international law library which does not exist anywhere in this State. I know this from experience. I have to maintain an office in Boston when international law matters come up so that my resident partner up there can go to Harvard and do the research. There are no law firms in New Jersey that can service New Jersey clientele well in the absence of some unusual arrangement like I have.

As a result, you find New Jersey businesses historically going to New York to get legal services, and that is a disincentive. A small business person can't afford, in many cases, to, A, pay a New York lawyer's fee, and, B, they can't take the day off to go to New York.

If there were a legal reference material system here in the State, I think you would find there would be more interest on the part of the legal community to get involved in this specialty. And, indeed, having access to lawyers locally would be an encouragement to many small businesses.

As I see it, the state export trading company concept must either succeed famously, or it will be a disaster.

ASSEMBLYMAN PATERO: It will succeed.

MR. MESSINA: The reason for this is, as I said, there will be a negative impact, I think it is inevitable, upon the private sector export trading company community -- although that is a small one here in the State at the moment. There will be a great deal of fear that the State will preempt the field, and that will inhibit the establishment and growth of private export trading companies, as I see it.

It will also inhibit the likelihood that what has historically been a parochial banking community in this State will reach out and get involved, in an equity sense, in the export trading companies to be established in the private sector. I think as reluctant as they appear to be right now, maybe the existence of a State agency of this magnitude could inhibit their desire to get involved even more so.

So, those are the risks. I hope I am not being melodramatic about this, but if the State authority is not properly structured, if it is not centralized, if it doesn't fill the void and provide the one stop shopping, even if it means getting the people who are now out of it into the private export trading company community and hook up the potential exporter with a private trading company that has contact with a specialized segment of the industry they are dealing with, or if they are localized in this area -- that could be a vital role that the State could play -- it could cripple the process here in New Jersey, as I see it, and put us further behind other states.

As it stands now, I see the existence of a State authority as sort of sidestepping the two most beneficial aspects of the Federal Export Trading Company Act. And, that is because it would be a state-sanctioned agency, presumably it would fall within the Parker vs. Brown doctrine of being exempt from the Federal Anti-Trust legisation. So, therefore, we aren't really getting any benefit from the Anti-Trust exemption under the Act, and if it does have the effect of discouraging banking equity investment in private ventures, then we have lost that beneficial aspect of the Federal legislation.

As I said, in my opinion that doesn't mean that it can't work and that it shouldn't be looked at. I happen to think that the king pin of this entire package is probably the little bill in here on trade

information. I think that is the critical area that we could maximize this whole State program's potential through.

Professional staff is going to be important. Things such as tax credits for export administrative services, I don't think is really beneficial. First of all, we are talking about "smalls" to "mediums" You are going to find that a small to medium-sized company is not going for the one-fifth of the cost they would recover through a tax credit, go out and hire a full-time administrative person to handle strictly administrative matters regarding export trade. That is just not going to happen. A small business, you are going to find, is going to be doing any number of things inside the organization, and this type of tax credit is not going to be a sufficient inducement for them to go out and hire an administrative person.

The concept of a tax credit for fees paid to the export authority -- I like that idea. I think that could be sufficient inducement to get somebody into the door of the export trading authority, and if there is information there that they didn't know existed, and there are potential customers there that they didn't know existed, and if there are potential financing schemes that they didn't know existed, then that will be sufficient incentive to get them to start exporting. So, in that sense I think that is potentially a good aspect of that particular bill.

The tax exempt status for interntional trade bonds, that is a resolution you are calling upon Congress to approve. I know the IRS has opposed that when the issue has been raised in other states. I expect that will become a political issue in Washington, but that doesn't mean they shouldn't know what the people back home in New Jersey think.

All in all, I think the initiative taken here in the State is a good one. As I said, properly structured, I think we can get out and take the lead over many other states and put this State back in the position where it rightfully belongs. Thank you, Mr. Chairman.

ASSEMBLYMAN PATERO: You know, I have disagreed with other statements, but I can't disagree with what you said. There are problems. There are hidden problems that we didn't know would exist. It is like when you go fishing. You have to know what you are going to catch.

As I said, if this becomes law, everything depends on the personnel that we hire. It is true, as one of the speakers said before, to get a good person it is going to cost a lot of money. I wouldn't just take anyone if, because of political reasons, he or she got the job. The biggest fear I have is just that, the personnel that would be hired.

MR. MESSINA: That happens to be a fact. That's why I said it would either succeed famously or it could fail. And, that is going to require sufficient investment at the outset from the State, to fund this thing properly even though it is anticipated it is going to generate sufficient revenues to liquidate its own debt over a period of time, which I think is a great concept. I still think in the beginning, the State has to be willing to make the commitment to this thing financially and through its personnel to ensure its success.

ASSEMBLYMAN PATERO: I don't think the State should be stingy on something like this because it is going to create a lot of jobs. It is going to be getting our products overseas. It is going to be another market for goods that are saturated in the States now.

As I said, I am very pleased with your testimony. I can't disagree with what you are saying.

MR. MESSINA: The only difficulty I have is, as I said -- and maybe I didn't make this clear -- it should be centralized if it is going to work.

ASSEMBLYMAN PATERO: Yes.

MR. MESSINA: I think the concept of autonomous, independent county and municipal authorities could be a mistake. I think that could be a good liaison office, for instance, to get information back and forth between Trenton or New Brunswick or Newark, or wherever the central location is, and to keep in touch with the businesses, but you should avoid duplication of effort. I don't think different counties should be doing the same thing over and over again. When the process is centralized, they can all draw upon the same resources. There would be economies of scale and cost if it were done that way.

I am not saying there shouldn't be a local effort, but I think they should be under one common umbrella.

ASSEMBLYMAN PATERO: It seems like my series of bills deals with the public and the private sector. I don't know if you want to answer this, but what is your feeling about the Port Authority? That came up before.

MR. MESSINA: I don't know if I was here when the Port Authority was mentioned.

ASSEMBLYMAN PATERO: The speaker brought out a good point. I can't see public monies being used, as they would be used by the Port Authority.

MR. MESSINA: I have difficulty with the Port Authority's position. Some of the concerns I have are not unlike the concerns I have expressed here concerning the State effort. The concern I have is that it would preempt the field. The Port Authority is huge, it has the resources, and it has gotten off to a running start on this. I don't know if they were a little bit presumptuous in getting off so quickly without talking at greater length to State legislators, but in any event I have some concerns about their program. I also have concerns about who they are going to be more interested in promoting, New York or New Jersey.

ASSEMBLYMAN PATERO: Well, it's eighty percent New York and twenty percent New Jersey, and it is very unfair.

MR. MESSINA: On this side of the River it is.

ASSEMBLYMAN PATERO: Are there any further questions?

ASSEMBLYMAN ROD: I imagine it would be fifty-fifty. Do you really think it would be eighty-twenty?

MR. MESSINA: Yes.

ASSEMBLYMAN PATERO: Tom?

ASSEMBLYMAN COWAN: I gather from your testimony, if I am interpreting it correctly, that there is no such clearing house in existence in any other state, is that true?

MR. MESSINA: Not to my knowledge. For instance, as I see it, I think an ideal location for such a clearing house would be in New Brunswick, perhaps at Rutgers. Now, if you say there is no clearing house for information, there is no official state clearing house for information, to my knowledge. As I said, Harvard has vast resources, and they have an incredible library. Now, if you want to call that a

clearing house which is accessible to almost anybody who needs to get in there, I guess you could characterize it as such.

ASSEMBLYMAN COWAN: They use it as reference?

MR. MESSINA: It is used as reference, yes.

ASSEMBLYMAN COWAN: Where is your office located?

MR. MESSINA: It is in Red Bank.

ASSEMBLYMAN COWAN: You are in Red Bank?

MR. MESSINA: Yes.

ASSEMBLYMAN COWAN: Did you seem to have a little bit of a problem with getting public money to start this thing off?

MR. MESSINA: Do I have a problem with that?

ASSEMBLYMAN COWAN: Yes.

MR. MESSINA: I do not have a problem with that. I know that the State might have a practical problem with that in this day and age. But, my understanding is that whatever "debt" the authority incurs at the outset is going to be liquidated over time as it begins to generate revenue.

ASSEMBLYMAN COWAN: Of course, with all the experts here who deal with exports today, it just ran through my mind while I was listening to the testimony, that industry itself -- the private sector, and we are talking about small businesses -- does not have the funding availability or the expertise to deal with this. I suppose maybe going back to the 15th Century, they faced the same situation. If it wasn't for a little public funding, we wouldn't be here today.

MR. MESSINA: Yes. You know, I can't quarrel with that. As I said, I have a lot of faith in the private sector's ability.

ASSEMBLYMAN PATERO: We agree with that.

ASSEMBLYMAN COWAN: I was just saying that it would need something to kick it off, and of course even with public funding it didn't make-- Well, I guess communism wasn't started at that point in time but-- (laughter)

ASSEMBLYMAN PATERO: The way it seems to me is, what has been happening has been happening for the past six or seven years. There is no push to get other people interested in new markets, and that is why I feel it is important that the State get into this.

Before a small businessman decides to do this, he has to get a lawyer in order to look for information. It is going to cost him thousands of dollars, and he just says, "Hey, I might just as well stay where I am."

But, if we do as we are talking about today, and we establish a central point so that he can come to the State, then maybe the State could help by guaranteeing the funds from banks and we could increse our productivity in the State of New Jersey. We are going the wrong way now. Something has to be done.

ASSEMBLYMAN COWAN: It does seem like an awful minimal amount as compared to what it can promote in the private sector.

MR. MESSINA: That's exactly right. You are the people who have to think of this. This is not a program that is not going to pay dividends.

ASSEMBLYMAN PATERO: It all goes back to personnel. If we don't have the right personnel, forget it.

MR. MESSINA: Precisely.

ASSEMBLYMAN PATERO: Thank you very much, Mr. Messina.

MR. MESSINA: Thank you.

ASSEMBLYMAN PATERO: Our next speaker will be Mr. Anthony Beninati from the Bergen County Community College.

A N T H O N Y J. B E N I N A T I: Thank you, Mr. Chairman, and members of the Committee. After all the preceeding expert testimony, I feel somewhat like Zsa Zsa Gabor's seventh husband on their wedding night, I know what I am supposed to do, but I don't know if I can make it very exciting at this point.

Nevertheless, I appreciate Mr. Patero's appraisal that the public sector input is needed in the promotion of exports, and that higher education should play a role in this thrust.

My purpose in being here is twofold. First, as an educator with interest in the area of international trade, to add my support for these bills, which are designed to promote exports by New Jersey entrepreneurs. And, second, to persuade you to shape relevant legislation, particularly A-3137, to incorporate the assistance of New Jersey's higher educational structure, specifically its community colleges, in achieving this goal.

New Jersey State Library

Our founding father, George Washington, counseled American businessmen that exporting U.S. goods would provide ample compensation for the trouble and expense it involves. Nevertheless, the U.S. experienced a record $42.69 billion merchandise trade deficit in 1982, and forecasts project a $50 to $60 billion deficit for this year.

In response, one new mechanism developed to promote U.S. exports is the domestically based ETC, or export trading company, authorized by the late 1982 law, allowing exporters to pool resources under Anti-Trust exemptions. These enable us to compete against foreign ETC giants like Mitsui, which engage in a variety of activities.

As was mentioned before, entities as diverse as the State of Iowa and the Port Authority of New York and New Jersey have formed ETC's. However, small and medium-sized firms have had difficulty in organizing or joining export trading companies tailored to their needs because of the complexities of dealing with competitors and banking institutions, and in complying with numerous Treasury, Commerce, and Justic Department regulations and requirements. They clearly need leadership and direction in what should be a profitable venture.

The State of New Jersey could assist these entrepreneurs through this legislation by creating a State and county authority to serve as vehicles for exporting. New Jersey has some of the nations busiest marine and air terminals, many experienced shippers, insurers, bankers, and freight forwarders, together offering a unique network for increasing profits through exporting.

Although some 3,500 New Jersey firms currently export their products, a world of opportunity awaits many thousands of others who have yet to cast their bread upon the waters.

As in the stimulation of consumer demand, we must first stimulate these firms' awareness of opportunities in international marketing, and foster knowledge of the exporting trade potential among these potential exporters before they will develop an intention to export.

State and county authorities, operating from a position of independence would be the most suitable vehicles to promote awareness and knowledge of exporting.

I propose that any State effort to promote our economy through exporting should incorporate the present and potential services offered by the educational sector to business, particularly by the community college, which has been at the vanguard of service to the international business community in New Jersey. Our role would rest primarily in the areas of assistance with training programs and in information dissemination.

Bergen Community College is already active in these areas through several vehicles. First of all, we sponsor an international trade roundtable luncheon seminar each month, with a membership of over one hundred manufacturing firms, banks, freight forwarders, and other export related companies. They have met since the summer of 1981. We have the cosponsorship of the Department of Commerce, its International Trade Administration, and the New Jersey District Export Council. This serves as a forum for a meeting between executives from various export related activities and they have found it to be very beneficial.

Recent seminars have included presentations by Mr. Bernard Jaffee, Vice President and Secretary of Sun Chemical Corporation on licensing and distribution agreements; Mr. Al Abbott, President of Abbott International Associates, "The Export Process"; Mr. Larry Gerwertz, Director of Ocean Operations, Rand International, "What a Freight Forwarder Can Do For Your Company," and with others.

Additionally, we publish a series of quarterly news letters that we disseminate free throughout the New Jersey business community, called, "Global Vistas," focusing on issues in international trade, such as exporting by New Jersey businesses, international marketing, grain cargo insurance, etc.

We offer nine credit courses in trade documentation, insurance, international business, international marketing, fundamentals in international business, international finance, and several others.

We offer translation services. We also cooperate with the Small Business Administration by providing counseling on our campus to businesses, especially those who are interested in international trade.

We also have brought scolars from abroad through Fulbright grants to consult with our faculty and with businesses in the area.

Next year we will have a psychologist from the Dominican Republic who will address some of the areas of consumer behavior in the Caribbean, and an internatinal business expert from Jamaica to consult at our campus.

Therefore, I think there are several reasons which might be put forward to support our participation in such an activity. First of all, we offer a variety of international expertise among our faculty and staff. Additionally, we have added the expertise of local businessmen who have experience in the area of international trade to present lectures and to serve the community from our facility.

Secondly, our existing network of services already outlined above are there, and as the statistics show, there is an immediate need to help our exporters and to help firms who are not presently in exporting to promote our trade. If the services are there now and they are expanded or enhanced through these acts, we can convey them immediately to the businesses without waiting for an additional structure to be created by the State.

Moreover, third, we have superb facilities. Most of our State's county colleges are relatively new. They generally have excellent communication equipment for training purposes -- computers. In our case, we also have a link-up with United Artists, U.A., Columbia, cable T.V.'s facilities right on our campus.

Additionally, the community colleges are dispursed widely throughout the State.

Fourth, we feel the State can help us as well by showing support for our activities, and by recognizing these activities in the bills. All of these activities clearly fall within our mission of service to the community, in this case the business community, which is an area where in the past relations between academia and the private sector have been chilly. Nevertheless at the community college we have successfully forged an alliance between the international business community and the educational community, one that has been mutually profitable.

By including our sector within the provisions of the export trading authority, you would grant recognition to our effort and promote further achievement.

In conclusion, I would like to say that at the very least we feel the educational community, especially the community college, should be included in these efforts, particularly in Bill, A-3137, at the very least through membership in an advisory board.

I note that in that provision, there is a list of nine different areas of expertise, and I would submit that a tenth area should include an individual who has expertise in international education. This is another possibility for choice to be included in such an authority.

I think the aim of such a suggestion would be to develop a fully integrated approach to exporting through the cooperation of the three sectors of government, business, and education. This is one area where the Japanese and the Taiwanese are light-years ahead of us.

We recently had a guest scholar at Bergen who was a professor of marine cargo at a junior college in Taiwan, where that is considered to be an area of specialized expertise in exporting. Their junior college is supported by the public and private sector, and is carefully integrated into a total international marketing concept, providing training, consulting, and advisory services.

I feel that here in New Jersey we have the opportunity to match and surpass them in this area, and I believe that a joint venture is possible. Thank you.

ASSEMBLYMAN PATERO: I will recommend an amendment to put that into the legislation. I have always been of the opinion that the State has never used its educational community as much as it should. I used to represent Rutgers University. It was in my district when it included New Brunswick, and I was always of the opinion that we should be using it more.

MR. BENINATI: I feel that part of the problem is ours too, in that the public sector, particularly the educational segment, has been undermarketed. We don't really let the public know what we have to offer. And, in the past we haven't let the business community know what we have to offer.

ASSEMBLYMAN PATERO: I know as a fact that other states use our universities. I think we should start doing it also for a change.

I have no questions. Does anyone else have any questions? (no response) Thank you very much.

MR. BENINATI: Thank you very much.

ASSEMBLYMAN PATERO: Our next witness will be Professor Farok Contractor, Rutgers Graduate School of Management.

F A R O K J. C O N T R A C T O R: I am an associate professor of international business at our graduate school, a subject I have taught for seven years, following a stint with a foreign export trading company.

I am here to relate some of our experiences in helping small businesses develop exports, and to try and relate that to the proposed legislation, and then conclude with a few comments of my own on the bills.

Last fall we ran a joint program with the U.S. Department of Commerce, the Small Business Development Center, where MBA students enrolled in our international marketing course. We were assigned the task of developing export marketing plans for six small sized New Jersey firms and a consortium of laboratory equipment manufacturers. The six companies represented products as diverse as soap and fragrances, computer control devices, wire and cable, electronic parts, and materials handling equipment, etc.

In researching these cases, the students made use of the Commerce Department foreign market reports, economic data, and trade statistics. Country specialists from the International Trade Administration in Washington were consulted, and interviews were held with the New Jersey District Export Council members. Foreign consulates and trade development offices in New York City were also frequented.

I think the essential point that is germaine to the legislation is that more than 1,000 hours were spent by the thirty-one students on the project for seven companies.

How did these experiences relate to the proposed legislation? Well, first, I would suspect that perhaps only one or two of the seven companies would have, on their own initiative, undertaken the kind of in-depth investigation that is necessary to assist export potential, let alone initiate a practical export program.

Most of the companies, I would suspect, did not have the extra executive manpower to devote the one or two hundred executive

hours necessary for an initial investigation, just to determine export feasibility, or they were not convinced that that would be a worthwhile financial investment. In this case, they were able to do so by using the services of Rutgers MDA candidates, free of charge, and so they agreed to the idea.

Once the investigations were completed, however, we were happy to find that several of these companies were sufficiently convinced of the viability of exporting, or perhaps licensing, to actually try and do something further about it. One company has even hired a student part-time. Another, I learned, may participate in a trade fair in the Middle East. We hope that actual sales will result for one or two of these companies -- export sales.

So, the point is that export development is an extremely costly and drawn-out process. One suggestion would be for small firms to piggyback on the already existing international reach of larger companies. Accordingly, a recommendation would be to try and include larger companies in the State's export development effort, and give them further practical incentive, financial if necessary, so that they might help small companies by forming a consortium.

Another conclusion for one company was that the export of their product was not feasible, but they should investigate exporting their technical capabilities, or exporting their services if not their product, in a licensing type arrangement. This is consistent with the transition of the economy towards the services sector, and particularly with the State's attempt to have high technology industries locate here.

Let me make a few comments on the role of higher education in this effort. There is obviously considerable mutual benefit to be derived from a program of this sort, where selected faculty and students advise on and actually carry out the market development efforts. For students it means practical field experience, and exposing them to the possibility of a career in international business. In terms of training and education, though, the need is not so much for the "how to's" of exporting, the documentation, letters of credit, and so on. These are essentially clerical functions, and we have enough institutes out there to cover that nitty-gritty work.

Rather, the need is for education in market identification, strategy, and overseas market development. This, Rutgers, and particularly our graduate school, is equipped to do.

As for the bills themselves, I cannot underscore their importance. We are all persuaded of the need to export more in goods and services so that we can continue to maintain and create jobs and enjoy the benefits of cheap imports. However, I would like to draw a distinction between export competitiveness and export promotion, or development. It is one thing to make exports more competitive through measures such as lower-rate financing. Assuming that this results in a somewhat lower price quoted by New Jersey exporters, this may translate into a somewhat larger volume. But, one ought not to look for a major expansion on that score alone.

Barring notable exceptions, U.S. exports are not restrained because of the absence of competitive financing or similar incentives. Rather, the more difficult and more crucial task is export promotion, persuading firms preoccupied with the domestic market that there are worthwhile foreign opportunities. This is why I would place a higher priority on incentives specifically oriented towards export development, rather than providing institutional mechanisms to channel already existing exports at a somewhat lower cost.

I recognize the great value of using existing exports as a volume base on which developmental efforts can be built. From what I have seen of the business, export trading companies need a turnover of at least one hundred million dollars, or upwards, in order to begin to do an effective promotional job on a wide enough scale needed for the State. The success of the Japanese Trading Company is partially attributable to the sheer scale of its activity. I worry for this reason, that the export trading companies here may be too prolific, too scattered, and too fragmented.

Another success of the Japanese Trading Company comes from the fact that it enables small and medium sized companies to piggyback on larger firms by complementing and/or supplementing the latter's product range. So, industry consortiums, led by an industry expert, can be very effective. However, this requires that specific incentives be given to the larger companies to join such a consortium.

There is also no avoiding the fact that larger companies will continue to dominate in exports. That is the pattern all over the world, although the potential in New Jersey and in the United States for foreign growth is greatest, or it is most untapped, I should say, in companies with sales from fifty to three hundred million dollars, roughly speaking. This is why I worry that the proposed eligibility limits in Bill 3138 for qualifying for tax credits may be too low. Raising the limit would cost the taxpayer more, of course, but I would rather control the cost of the program by a stricter interpretation, such as linking the credits to actual export performance, rather than making the eligibility so low or restrictive that it excludes the most promising group of potential exporters.

The idea of an export trade information center is again a very worthwhile one. I cannot but applaud that effort, but I will say it would do much more if it went beyond provinding information, to actually carrying out the marketing development, if not on a companu-by-company basis, then on a product or industry basis. So, ideally, in my view, an information center should have not just information on a country basis -- what is available in Belgium or in Japan, etc. -- but rather by organizing information on a product or industry basis which covers the entire world.

All in all, I cannot but endorse the legislation. At Rutgers and at other eduational institutions we stand ready to participate in this effort.

ASSEMBLYMAN COWAN: Thank you very much. Are there any questions? (no response)

Is there anyone else present who wishes to participate in our public hearing? (no response)

I guess we will adjourn at this time. On behalf of the Chairman, Assemblyman Rod, and myself, we want to thank all of you for attending. It has been an enlightenment for us. Thank you.

(HEARING CONCLUDED)