

***U.S. DEPARTMENT OF COMMERCE***  
***Office of Inspector General***

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**PUBLIC  
RELEASE**

***INTERNATIONAL TRADE  
ADMINISTRATION***

*US&FCS Poland:  
Effective Post Needs Attention  
to Certain Management Issues*

*Inspection Report No. IPE-9288 / April 1997*

*Office of Inspections and Program Evaluations*



**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>EXECUTIVE SUMMARY</b> .....	i
<b>INTRODUCTION</b> .....	1
<b>PURPOSE AND SCOPE</b> .....	1
<b>BACKGROUND</b> .....	2
<b>OBSERVATIONS AND CONCLUSIONS</b> .....	8
<b>I.    US&amp;FCS POLAND HAS SOUND TRADE STRATEGY, BUT CERTAIN           MANAGEMENT ISSUES NEED ATTENTION</b> .....	8
A.    Post’s Management Strategy Is Generally Sound, Although Market Research May Not Be Driven by Need or Demand .....	8
B.    Commercial Section Is Well Regarded Within the Embassy, Although Some Interagency Relationships Could Be Improved .....	12
C.    Staff Is Effective but Performance Is Endangered by Low Morale .....	16
D.    Better Focus on ICASS Required to Minimize Increases in Administrative Support Costs .....	18
<b>II.   US&amp;FCS POLAND HAS THE POTENTIAL TO INCREASE ITS           EFFECTIVENESS WITH ADDITIONAL STAFF RESOURCES AND           TRAINING</b> .....	19
A.    Post Staffing Resources Should Be Analyzed to Determine Long-Term Adequacy .....	19
B.    Training Is a Critical Need for Foreign Service Nationals .....	24
C.    CEEBIC Has Extended US&FCS Poland’s Resources and Enhanced Its Program .....	27
D.    Commercial Library May Not Be Necessary .....	28
<b>III.  U.S. BUSINESS CLIENTS GENERALLY PLEASED WITH POST’S           PERFORMANCE</b> .....	30
<b>IV.  EXPORT ADMINISTRATION REQUIREMENTS GENERALLY           HANDLED WELL</b> .....	32
<b>V.   ADMINISTRATIVE MATTERS GENERALLY HANDLED           APPROPRIATELY</b> .....	34

**TABLE OF CONTENTS (continued)**

**RECOMMENDATIONS** ..... 36

**APPENDIX I**                    **GLOSSARY OF ACRONYMS** ..... 38

**APPENDIX II**                   **GLOSSARY OF US&FCS SERVICES** ..... 39

**ATTACHMENT: US&FCS'S RESPONSE TO THE DRAFT REPORT**

## EXECUTIVE SUMMARY

Poland, designated a “Big Emerging Market” in 1994 by the Department of Commerce, represents one of the fastest growing economies in Europe, as well as a country uniquely positioned for penetration not only into newer and growing central and eastern European markets, but also into the established western, European Union markets. Opportunities for American trade and investment in Poland are great and growing. U.S. exports to Poland amounted to a reported \$776 million in 1995, an increase of 24.1 percent from 1994. In addition, American companies are the largest investors in Poland, totaling over one-fourth of all foreign investment.

However, as with other former Eastern Bloc economies, conducting business in Poland is not without substantial difficulties. Our discussions with both American businesses and U.S. government representatives indicate that the businesses need the government’s assistance in Poland for a variety of reasons—from securing market access, to providing financing, and supporting U.S. companies seeking to win major projects or deals in which the Polish government plays an important decision-making role.

The U.S. and Foreign Commercial Service has the primary responsibility to help shape and focus this expansion of opportunities in Poland. Our inspection of US&FCS Poland disclosed that the post is doing an excellent job of encouraging and supporting U.S. firms in this growing economy and complex market. The Senior Commercial Officer (SCO) has developed an active and successful strategy to carry out the post’s trade promotion activities. (See page 8.) Moreover, US&FCS’s clients were generally pleased with the services and products they received from the commercial staff, adding that there was a growing need for assistance in Poland. (See page 30.)

The US&FCS staff’s efforts were enhanced by the support and cooperation of the U.S. Ambassador to Poland, and other embassy officials from agencies represented in the country. The US&FCS operation coordinates extraordinarily well with the other embassy sections, including the Department of State’s Economic Section. (See page 12.) In addition to its trade promotion activities, US&FCS Poland generally conducted pre-license checks and post-shipment verifications for U.S. export license applicants according to the guidance issued by the Bureau of Export Administration. (See page 32.)

However, we also found several issues and concerns that warrant US&FCS management’s attention:

- ! **US&FCS Poland staffing resources may be inadequate.** Although Poland is classified as a Big Emerging Market, it is not a high priority post of US&FCS management in terms of resources. Specifically, we are concerned that US&FCS has not performed sufficient

analysis to determine whether the post is appropriately staffed. As Poland's transition to a market economy continues, U.S. firms are beginning to explore market opportunities beyond Warsaw. However, US&FCS Poland staffing resources have remained relatively unchanged during the past five years (and have actually declined somewhat since FY 1994). We believe that a case could be made for expanding the post's total resources and dispersing US&FCS staff resources to posts outside of Warsaw, at least temporarily, for evaluation purposes. US&FCS should determine whether additional resources would provide cost-effective benefits to American business interests in the country. (See page 19.)

- ! **Post reporting is adequate, but is partly driven by US&FCS headquarters, not necessarily by the demands of U.S. businesses.** At least some market research was being produced due to a perception that US&FCS headquarters was demanding a predetermined number of reports, rather than to meet any real, identifiable demand for particular reports. Neither the SCO nor headquarters has any means for determining who actually reads these reports or whether too many or too few are being produced or even which topics/industries/markets are most in demand. It was therefore difficult to determine whether the post's market research program had the appropriate level of resources devoted to it or was having the intended impact. (See page 10.)
  
- ! **Conflict with U.S. Trade and Development Agency is affecting the impact of US&FCS Poland.** There is a misunderstanding concerning the services expected from the US&FCS personnel in Poland by the U.S. Trade and Development Agency (TDA). Due to TDA's small size, it must rely heavily on embassy personnel (especially from US&FCS) to assist it. However, the SCO in Poland believes TDA is too demanding of the commercial staff's time. TDA officials, on the other hand, do not believe that this is a systemic problem with other US&FCS posts. In response to this situation, TDA has redefined what services TDA contractors are allowed to request from the commercial staffs overseas. US&FCS headquarters would like to have a worldwide agreement with TDA that addresses how US&FCS will service both TDA staff and its contractors. (See page 14.)
  
- ! **Low office morale inhibits staff initiative and drive.** Although we found a productive staff in Poland, we also found a morale problem that was due in part to a change in post management, lack of expected annual bonuses in FY 1995, and the FY 1996 furloughs. We believe that the low office morale has affected the foreign national staff's motivation and productivity levels, potentially disrupting further growth of services to U.S. businesses. The staff feels that under the current SCO, there no incentive for improving their productivity. The recent commitment of additional management attention to staff concerns should help, but the SCO also needs to communicate to the staff the standards she uses to evaluate performance and determine who gets an award. (See page 16.)

- ! **Training is a critical need for commercial staff.** According to US&FCS training records, less than half of the commercial staff in Poland have received any export promotion training, such as “business counseling” or “market research.” In addition, the majority of the staff had inadequate knowledge of how to use their computers and Windows software. (See page 24.)
  
- ! **Better focus on ICASS needed by the SCO in Poland.** US&FCS Poland has not focused on the critical changes in administrative costs now taking place under the State Department’s new International Cooperative Administrative Support Services (ICASS) system, which is used to allocate shared costs for support of U.S. government overseas operations. Under ICASS, charges to US&FCS are expected to double, and we believe US&FCS Poland needs to fully explore possibilities for savings and efficiencies before ICASS is fully implemented. (See page 18.)
  
- ! **Information sharing between US&FCS Poland and the U.S. Agency for International Development needs improvement.** There are perhaps hundreds of USAID contractors who visit Poland every year in the course of completing AID projects. We were told that these contractors talk to Polish business and government entities and, therefore, have commercial information that could potentially benefit US&FCS’s operation. We urge the SCO to reap the benefits of this valuable trade information and spend more time developing a relationship with USAID and its contractors. (See page 13.)
  
- ! **Commercial library may not be necessary.** US&FCS Poland has inadequate controls over who uses its commercial library and has not assessed the costs and benefits of maintaining it. The SCO needs to determine who is using the library and for what purposes. Resources used to support the library might be better put to other uses. Possible opportunities to reduce overlap with a USIS facility in Warsaw or cooperation between the organizations should be explored. (See page 28.)

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In responding to our draft report, US&FCS officials generally agreed with our observations and conclusions. They also advised us that our recommendations were very useful and that they have already begun implementing several of them and will place a high priority on implementing the remainder. The US&FCS’s written response also provided some additional information which we used to make minor modifications to our report, as appropriate. A copy of US&FCS’s complete response is included as an attachment.

## INTRODUCTION

Pursuant to the authority of the Inspector General Act of 1978 and the requirements of the Omnibus Trade and Competitiveness Act of 1988, the Office of Inspector General conducted an inspection of the U.S. and Foreign Commercial Service (US&FCS) operations in Warsaw, Poland, during the period September 16-20, 1996. At the conclusion of the on-site inspection, we discussed some of our observations with the Senior Commercial Officer (SCO), who oversees US&FCS activities in Poland. We also briefed the US&FCS Director General and the Deputy Assistant Secretary for International Operations at US&FCS headquarters on October 15, 1996. Because several of the inspection issues and concerns involved other organizations within US&FCS and the International Trade Administration (ITA), we conducted additional work in ITA headquarters and subsequently discussed pertinent matters with other US&FCS field personnel.

Inspections are special reviews that the OIG undertakes to provide agency managers with timely information about operations, including current and foreseeable problems. Inspections are also conducted to detect and prevent fraud, waste, and abuse and to encourage effective, efficient, and economical operations. By highlighting problems, the OIG hopes to help managers move quickly to address those identified during the inspection and avoid their recurrence in the future. By the same token, inspections may also highlight effective programs or operations, particularly if they may be useful or adaptable for agency managers or program operations elsewhere.

## PURPOSE AND SCOPE

The purpose of the inspection was to evaluate US&FCS policies, procedures, and practices being followed in Poland. This included determining whether established goals were being achieved, evaluating the economy and efficiency of operations, and assessing the post's compliance with applicable regulations and instructions. We also examined the coordination between the post and other organizations in achieving the overall goals of ITA and the Department.

In conducting the inspection, we (1) reviewed the organizational structure and operating approaches used in administering activities at the post; (2) interviewed appropriate representatives of the Department of Commerce, the State Department, other embassy elements, and the private sector; and (3) examined pertinent files and records relating to the post's operations. The inspection also included a review of selected headquarters activities that support the post's operations. We also examined post cooperation with other organizations, since interagency coordination is necessary to carry out the overall goals of the ITA. The inspection was conducted according to the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

## BACKGROUND

ITA's mission is to encourage U.S. exports by implementing a National Export Strategy, by focusing on the Big Emerging Markets (BEMs), by providing industry and country analysis for U.S. business, and by supporting new-to-export and new-to-market businesses. ITA also seeks to ensure that U.S. businesses have equal access to foreign markets advocating on behalf of U.S. exporters who are competing for major overseas contracts, and by implementing major trade agreements, such as the General Agreements on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA), and the Japan "Framework." ITA's mission also includes enabling U.S. businesses to compete against unfairly traded imports and to safeguard jobs and the competitive strength of American industry by enforcing antidumping and countervailing duty laws and agreements that provide remedies for unfair trade practices.

ITA is organized into four primary units, US&FCS provides business counseling through a network of 93 domestic offices (including 15 Regional Export Assistance Centers) and 134 overseas offices and commercial centers in 69 countries. Trade Development is comprised of industry sector specialists, who provide information and analysis to U.S. exporters, policy-makers, and trade negotiators. Market Access and Compliance (MAC—formerly known as International Economic Policy), has country experts who provide market analysis to U.S. business. The Import Administration safeguards American businesses and the economy from unfairly priced imports.

The US&FCS overseas posts perform a number of activities that are directed at improving the trade position of the United States, including (1) identifying trade opportunities for U.S. products, (2) finding potential representatives or agents for U.S. firms interested in penetrating a specific market, (3) providing business consultation for U.S. visitors at foreign posts and making business appointments for them to see potential trading partners or host government officials, (4) assisting in the implementation of U.S. export controls and other trade regulation activities, and (5) preparing market research on a country's "best prospects" industries.

Poland is unique in that it is both a designated BEM country and a country straddling eastern and western Europe, uniquely positioned to increase trade with both regions. Moreover, Poland is one of the fastest growing economies in Europe.

### Big Emerging Markets: Greatest Potential for U.S. Exports

The Department of Commerce continually reassesses the interests of the United States in the world economy, and the role the government can play to help American business discover and exploit commercial opportunities abroad. As a result of that process, ITA has recently concluded that over the next two decades, the markets that hold the greatest potential for dramatic increases in U.S. exports are not our traditional trading partners in Europe and Japan, which now account for the overwhelming bulk of our trade. Rather, ITA concludes that the greatest commercial

opportunities are to be found in the Big Emerging Markets.<sup>1</sup> (See Exhibit 1 below).



ITA believes that BEMs are important to its trade promotion efforts because:

- ! BEM Gross Domestic Product is currently 25 percent of that of the industrialized world, and by 2010, is expected to be 50 percent of that of the industrialized world. BEMs, with a combined GDP of over \$2 trillion, already account for as large a share of world output as that of Germany and the United Kingdom combined.
- ! BEMs, comprising half the world's population, are expected to double their share of the world's imports to nearly 27 percent by 2010, and no other category of markets shows such dramatic growth potential.
- ! BEMs are making major progress toward market economies. Few other countries have undertaken economic reforms on such a broad scale.

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<sup>1</sup>Source: Big Emerging Markets home page, created by "STATUSA," as it appeared on December 16, 1996; the page is found at <http://www.stat-usa.gov/bems/>.

- ! BEMs have a significant regional and global political influence.
- ! U.S. exports to BEMs amounted to \$106 billion in 1992. Currently, sales to BEMs comprise nearly one-fourth of total U.S. exports; in some sectors, BEMs account for more than half of U.S. foreign sales. U.S. exports to BEMs already exceed exports to Europe and Japan combined.
- ! Promising opportunities for trade expansion are likely to open up as BEMs increase their purchases of capital equipment, including industrial and farm machinery, electrical power transmission and transportation equipment, and a wide range of high-technology manufactures—sectors where U.S. producers have an edge.

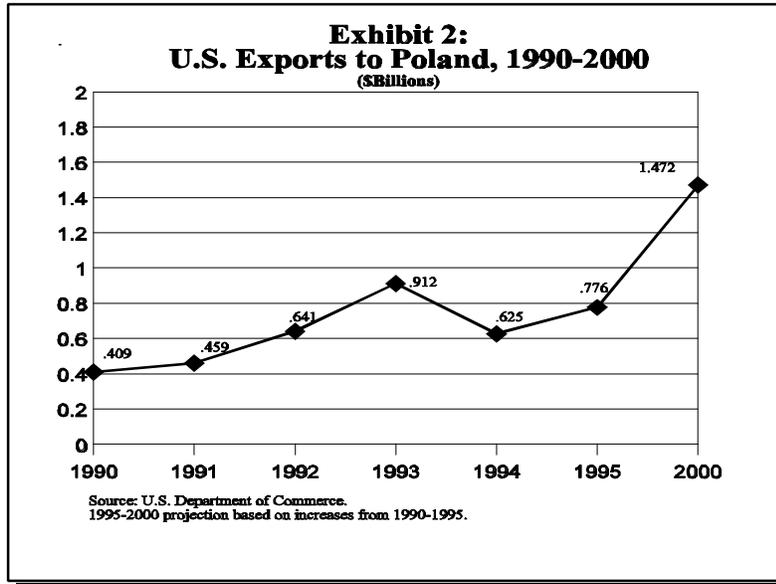
Poland: One of the Fastest Growing Economies in Europe

Poland's population of almost 40 million represents a largely untapped market for many products and services. Its infrastructure, after decades of neglect under Communist rule, needs substantial investment and western technology. Poland's total imports reflect these needs, increasing from \$8 billion in 1990 to \$29 billion in 1996.<sup>2</sup>

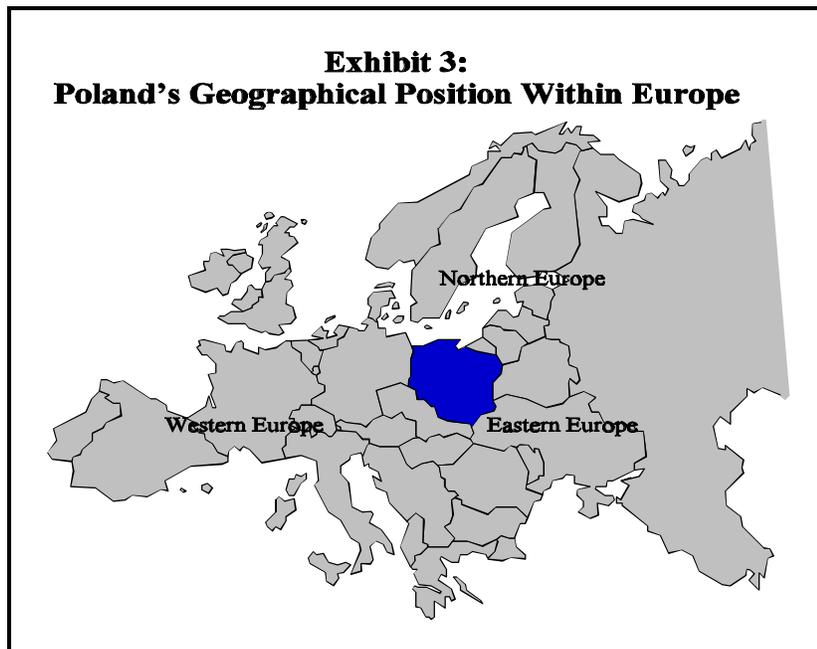
Opportunities for American trade and investment are growing rapidly in Poland. U.S. exports to Poland in 1995 amounted to \$776 million, an increase of 24.1 percent from 1994. (See Exhibit 2.) Opportunities for trade and investment continue to grow across virtually all industrial and consumer sectors in Poland. American companies lead investment in Poland, with over one-fourth of all foreign investment there. In 1995, total imports from U.S. firms into Poland ranked seventh on the list of Poland's import partners (Germany is first, then Italy, Russia, the United Kingdom, France, and the Netherlands). For 1997, the leading sectors for U.S. exports and investment in Poland are expected to include building products, computer software, sporting goods and recreational equipment, pollution control equipment, telecommunications, automobile parts and components, medical equipment, and broadcasting equipment. Local production in most best prospect export categories is generally low, although more firms start up new manufacturing operations each year. However, U.S. exporters across-the-board face strong competition from European producers. In certain sectors, such as computers and consumer electronics, competition from companies in Asia and Southeast Asia is also significant.

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<sup>2</sup>Source: The FY 1997 Poland Country Commercial Guide.



Furthermore, as can be seen in Exhibit 3, Poland is ideally located for both U.S. business penetration into other areas of the old Eastern Bloc and into the European Union's (EU) more traditional markets.



*Obstacles Still Facing American Companies in Poland*

While Poland is growing in exports at a high rate and U.S. companies are increasing their trade positions in Poland, business in Poland is not without its difficulties. Some of the obstacles facing American companies doing or contemplating business in Poland include having to deal with a complicated and inconsistent legal system, especially at the local level; intellectual property rights violations; and difficult and cumbersome government procurement procedures.

For example, in January 1990, Poland implemented the Harmonized Tariff System, which reclassified products and ultimately formed the basis for new duty rates on imports. Tariff rates have changed several times since then (and are still subject to change), and have proved to be a major frustration to U.S. companies actively involved in exports to Poland. In early 1993, a six percent import tax was added on all imports into Poland and significant excise taxes apply to certain products as well.

In addition, in an effort to join the European Union, Poland's tariff policy now discriminates against American products. The March 1, 1992, enactment of the trade provisions under Poland's association agreement with the EU, lowered or eliminated tariffs on many EU products imported into Poland, while tariffs on U.S. products remained the same. This immediately placed U.S. businesses in a less competitive and officially inferior position than their EU competitors. Product certification standards are also a major issue because the Polish government refuses to accept U.S. self-certification and Poland's testing procedures are perceived to be too lengthy, which can hurt the ability of many goods to be shipped to Poland.

These types of trade barriers clearly show that U.S. government assistance is needed by American business in Poland for a variety of reasons—from securing market access, to providing finance, and to supporting U.S. companies seeking to win major projects on deals in which foreign governments play an important decision-making role.

Despite the obstacles, the potential for American companies in Poland in the near and long term is very positive. As Europe's fastest growing market, Poland is a major focus of the Trade Policy Coordinating Committee (TPCC)<sup>3</sup>. Under the 1996 National Export Strategy, an interagency task force was created to develop an emerging market strategy for Poland that focuses on (1) increasing U.S. company awareness of specific commercial opportunities, (2) assisting U.S. companies to overcome obstacles through counseling, advocacy, and small business support, and (3) securing an improved commercial climate through consultations and negotiations on issues such as tariff discrimination. These agencies include the U.S. Trade and Development Agency,

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<sup>3</sup>The TPCC was created to provide a framework that would unify and streamline U.S. government export promotion programs. The TPCC is made up of 19 U.S. government agencies that, in addition to their primary roles, are also involved in some way with export promotion.

the U.S. Agency for International Development, the Overseas Private Investment Corporation (OPIC), the Export-Import Bank, and the Departments of Energy, State, and Transportation.

American companies we held discussions with in Warsaw all spoke of a growing economy that is welcoming American trade and investment. Walking around Warsaw, one is particularly struck by the number of familiar company marquees on buildings and by the amount of new construction of office buildings and hotels taking place. We were told that there is a similar and growing presence of western business in other parts of Poland, including the cities of Krakow, Gdansk, and Poznan. We noted the rapid growth of the American Chamber of Commerce (AmCham) in Poland. AmCham, founded in 1991 with 7 members, now has over 230 members in virtually every industry category.

## OBSERVATIONS AND CONCLUSIONS

### **I. US&FCS POLAND HAS SOUND TRADE STRATEGY, BUT CERTAIN MANAGEMENT ISSUES NEED ATTENTION**

Based on our inspection of the US&FCS Warsaw operations, we concluded that the post is successfully focusing on issues and opportunities inherent in a BEM that offer the greatest potential for U.S. businesses. The post has a well-focused approach to the market and the products and services it provides. We were impressed with the strategy the SCO had developed and was implementing, primarily for its clarity of purpose and milestones. In addition, we were generally impressed with how well the commercial section interacted with the other embassy sections—providing a unified team in Poland for U.S. industry. However, we are concerned that low office morale could potentially endanger this dynamic operation, although we believe that the situation can improve.

#### **A. Post's Management Strategy Is Generally Sound, Although Market Research May Not Be Driven by Need or Demand**

In general we were impressed with the strategy that the SCO has developed and employed to pursue concrete and specific objectives for encouraging U.S. trade and investment in Poland. The post has focused on specific and promising major industrial sectors (although many more are covered by trade specialists in order to serve the varied requests for information by U.S. businesses) and on specific initiatives vis-a-vis the Polish government that could open large markets to U.S. producers. We also noted that the post's reporting to headquarters and its market research were generally adequate, although we question the level of resources devoted to producing some of the research.

##### *1. SCO's Commercial Strategy Appropriate and Achievable*

The SCO in Poland had developed a sound commercial plan incorporating US&FCS's overall BEM strategy. The plan identifies markets in the key sectors of energy, environment, and telecommunications, as well as other sectors demonstrating promise (e.g., automotive) for U.S. industry. In addition, the plan focuses on issues, such as privatization, standards, and procurements, that are important to the growth of U.S. trade and investment in the country. The impressive strategic plan includes specific goals, a focused strategy, and achievable milestones.

We also found that the strategy was well integrated into the operations of the office. In fact, each trade specialist has an individual work plan based specifically and directly on the strategic plan and, for FY 1996, it appeared that these plans had been followed. Both the US&FCS regional

manager and the MAC Country Desk Officer, both located at headquarters; also confirmed that the SCO's strategy focuses on key sectors and on critical market access issues. In terms of industry focus, two of the three key sectors—telecommunications and energy—identified by the SCO as priorities are closed, currently monopolies of the Polish government. These sectors are where the SCO feels trade and investment policy initiatives will be most effective in the long-term for U.S. industry. According to the SCO, the privatization program is a key element in Poland's transition to a market economy, and major opportunities should arise for U.S. firms as these areas open up. In an effort to establish on-going relationships with American companies in these sectors, the SCO took the initiative and created an Energy Committee and a Telecommunications Committee within the American Chamber of Commerce.

US&FCS Warsaw also focuses efforts on the product certification issue. Beginning in 1997, about 1,400 diverse products (everything from steel pipes, to personal computers, and shampoo) were expected to require a "B" mark (safety) certificate to clear Polish customs. Information regarding Polish prices for testing products is inconsistent, and the testing procedures are lengthy. Standards and testing/certification present serious barriers to trade for U.S. companies, especially since third-country testing/certification is often not accepted by regional standards organizations. Firms selling goods without the B mark, or manufactured inconsistently with the standards for the mark, must pay fines amounting to 100 percent of the value of the goods sold. US&FCS Poland and the Economic section in the embassy continually work together to identify strategies on how to persuade the Polish government to change these standards and make testing procedures more consistent with other countries in the European Union. In an attempt to educate the Polish government on the American certification system, US&FCS Poland arranged for a group of Polish certification specialists to visit U.S. certification institutions.

In addition, the post is also addressing Polish tariff barrier issues. In 1992, Poland lowered or eliminated tariffs on many goods produced in the European Union and imported into Poland, but did not do the same for U.S. products. Although the U.S. negotiated more favorable rates for a number of product categories, many U.S. products are still at a disadvantage compared to European products. One initiative undertaken by the post was to persuade Polish importers, who would rather have the U.S. products, to "lobby" the government in an effort to reduce the tariff on that particular commodity.

US&FCS Poland also tracks major projects in the developmental stage in order to be instrumental in helping U.S. companies identify financing (primarily through multilateral banks). The post also serves as an advocate for companies during the market access development process instead of just when a problem arises. We also noted that the SCO appears to be handling competing American companies in an effective and fair manner.

2. *Quality of Post Reporting Is Appropriate, Level of Reporting Appears to Be Driven by Headquarters, Not Necessarily by Client Demand*

US&FCS Poland's reporting on activities and administrative matters was sufficient in terms of quality and appropriateness. The quarterly reports produced by the post appeared to reflect the total scope of trade promotion operations and the unique characteristics of the market and US&FCS operations in Poland. They also adequately reflected the management and operational problems and challenges facing the post. Furthermore, the reports reflected US&FCS Poland's performance, focusing primarily on quality, not numbers of activities. We found the quality of the Country Commercial Guide (CCG), market research reports, and other client-driven products to be generally good. However, we also found that some market research was produced due to a perception that headquarters was demanding quotas, rather than due to any actual demand for the product.

Country Commercial Guide

US&FCS posts overseas, in coordination with other embassy sections, are required to prepare CCGs that reflect trade information for each country. These guides present a comprehensive look at a country's commercial environment through economic, political, and market analysis. The CCGs are prepared annually by U.S. missions overseas and normally involve the combined effort of US&FCS, the Foreign Agricultural Service, and various State Department components of the embassy. The Poland FY 1997 CCG appears to adequately address the various opportunities for trade and investment in Poland. In addition, it lays out a number of concerns facing U.S. companies doing business or investing in Poland.

According to the SCO, more U.S. firms are exploring market opportunities beyond Warsaw. However, there is no information in the guide on specific Polish provinces or the varying local government attitude and openness toward foreign trade. Including pertinent information on key provinces in the guide would allow for more effective planning of US&FCS activities in Poland. We maintain that US&FCS Poland should incorporate into the CCG information on individual Polish provinces that the SCO believes represent new market opportunities.

Market Research Reports

In terms of market research, during FY 1996, the post submitted 23 Industry Sector Analysis (ISAs), ten of which were contracted out, and 154 Industry Market Insights (IMIs) reports. ISA reports are intended to provide American businesses with market size and outlook, characteristics, and competitive and end-user analyses for a selected industry sector in a particular country. According to ITA Export Promotion Services (EPS) representatives, the overall quality of the reports from US&FCS Poland is considered to be generally good and the headquarters' new format for the reports was being followed. After reviewing a sample of the ISAs, we too found

the quality of the reports to be good—in terms of depth of information, quality of presentation, and identification of critical marketing factors. IMIs are designed as short profiles of specific foreign market conditions or opportunities. EPS confirmed that the post regularly reports on upcoming commercial projects and purchases, as well as on opportunities in regional markets of Poland. In reviewing a sample of IMIs, we found that, in general, they were of acceptable quality and addressed specific marketing opportunities in Poland.

### Agent/Distributor Service Reports

US&FCS Poland also produced 14 Agent/Distributor Service (ADS) products in FY 1996. ADS's are customized overseas searches for qualified agents, distributors, and representatives for U.S. firms. According to EPS's in-house evaluations of the reports, the quality of the reports was good and, specifically, the company data, product information, prospect opinion, and post comments were complete and useful. We reviewed all of the ADS's conducted by the post in FY 1996 and found them to be comprehensive and timely. In addition, US&FCS Poland completed 10 TOP (Trade Opportunity Program) leads in FY 1996—a large increase from one in both FY 1994 and 1995. TOPs constitute timely sales leads from international firms seeking to buy or represent U.S. products or services. According to EPS, the quality of the leads was adequate.<sup>4</sup>

Although our review indicates that US&FCS Poland's end-products are generally good, we are concerned that the SCO believes that some market research was being produced due to a perception that US&FCS headquarters was demanding a predetermined number of reports or quotas, rather than to meet any real, identifiable demand for particular reports. Headquarters officials interviewed for this study, including the Regional Manager who has US&FCS Poland in his area of responsibility, claimed that there is no quota placed on the number of reports produced by any post. However, if the post management believes this to be true, there is a possibility that at least some of these reports are being driven solely to please headquarters and not due to client demand. This is also the same perception at another European post we visited, Germany. Neither the SCO nor headquarters has any means for determining (1) who actually reads these reports, (2) whether too many or too few are being produced, or (3) which topics, industries, or markets are most in demand. It was therefore difficult to determine whether the post's market research program had the appropriate level of resources devoted to it or was having the intended impact.

We have previously reported on the lack of an adequate feedback mechanism for post products and services and found the situation for US&FCS Poland products to be no different than other posts we have inspected. In a follow up report to be issued shortly on issues that are common to posts worldwide, we are noting both this lack of feedback mechanism on the impact of its

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<sup>4</sup>We reviewed EPS's latest report provided to Poland evaluating its market research products. The reports rated certain products as adequate, but did not expand upon these statements, and did not provide suggestions on how the post might improve its products.

products and services and a need for US&FCS to develop these mechanisms in consultation with its posts.

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In response to our draft report, US&FCS neither agreed nor disagreed with our recommendation that the agency needs to develop mechanisms to assess client satisfaction with its products and services. US&FCS Poland, as with other posts worldwide, has no adequate, consistent mechanism to determine whether appropriate levels of resources are (1) devoted to its products and services, (2) provided in a suitable mix, or (3) having the intended impact. US&FCS also did not comment on our findings and observations that there is the perception at post that at least some trade research reporting is driven by a headquarters quota versus actual demand or probable need. Hence, we reiterate that if most of the post's management and staff believe this to be true, then there is either (1) a possibility that at least some research is being produced to please headquarters and not to satisfy client demand or (2) a breakdown in communicating and understanding program priorities between the post and headquarters.

US&FCS did note that its ISA topics were planned and driven by "known" client needs and the market expertise of the staff. This accounted for 23 such reports produced by US&FCS Poland in FY 1996. However, US&FCS has not justified the number or level of resources devoted to the production of IMIs, 154 of which were produced in FY 1996. US&FCS Warsaw staff and management stated that there is a perception of needing to produce *numbers* of reports. We reaffirm the need for US&FCS to develop a mechanism for determining the impact and client satisfaction with its posts' products and services. Without this information, a post cannot know whether it is producing the correct number of research products or the correct mix.

US&FCS concurred with our recommendation that its Country Commercial Guide should include information on individual Polish provinces that US&FCS believes represent new marketing opportunities. US&FCS stated that the FY 1998 CCG, which will be drafted in July, will include information on major industrial regions outside of Warsaw—Poznan, Gdansk, and Krakow.

**B. Commercial Section Is Well Regarded Within the Embassy, Although Some Inter-agency Relationships Could Be Improved**

The US&FCS operation in Warsaw is located less than two miles from the U.S. embassy compound in leased commercial space within the Warsaw business district. Although the SCO sees major advantages to an embassy location, (i.e., more accessible to the Ambassador), she believes the post is more accessible to U.S. companies at its present location. We agree that the present location is more appropriate for dealing with businesses. Despite its separation from most other embassy components, it is considered very much an essential operation by the Ambassador,

who spoke highly of the US&FCS Staff in Warsaw and of the SCO's abilities and accomplishments. The Ambassador told us that he relies on the commercial section to keep him informed of trade and investment issues and believes that the embassy overall provides full assistance to U.S. trade and investment activities.

Both the Commercial Counselor and the Economic Counselor attend the American Chamber of Commerce meetings. The Ambassador also participates in other business-related events sponsored by US&FCS. In fact, at the SCO's suggestion, the Ambassador agreed to hold "Fireside Chats" with the AmCham on a monthly basis to discuss pertinent issues of doing business in Poland.

We were told both by the Ambassador and cognizant State officials that the US&FCS operation coordinates extraordinarily well with the State "ECON" section in the embassy. We found that the two sections work well together, due in large part to the active interaction of the Ambassador in assuring that this occurs and to the cooperative spirit of the heads of the two organizations. We believe this close relationship is benefitting both US&FCS and U.S. business interests in the country.

The Agricultural Counselor and the Chief of the Office of Defense Cooperation also were pleased with their relationships with the commercial section. In addition, US&FCS organizes business visitor briefings and business round table discussions, which afford other opportunities for cooperative efforts among the embassy sections. Overall, there appear to be few battles over jurisdiction between the commercial section and the other embassy sections. There is, however, room for improvement for US&FCS to improve its cooperation with both the U.S. Agency for International Development (USAID) and with the U.S. Trade and Development Agency (TDA).

*1. Expanded Relationship With USAID Should Be Pursued*

There is a need to increase the information flow between the US&FCS and USAID in Poland. Although on a working level, US&FCS and USAID trade specialists for the energy sector share information about each other's activities (e.g., US&FCS Poland is working to bring USAID energy contractors into the AmCham energy committee), the majority of information is not being shared. There are perhaps hundreds of USAID contractors who visit Poland every year in the course of completing USAID projects. These contractors talk to Polish business and government entities and, therefore, have commercial information that could benefit US&FCS operations. Completion of many USAID projects also have potential commercial links and opportunities for American businesses—many of which could be clients of US&FCS. Yet this is not occurring to the degree that it should.

The SCO told us that USAID information is not routinely shared with US&FCS and she does not interact with USAID because they are not client-driven and she does not have the time to develop

a relationship with them. Hence, USAID does not understand what she needs in terms of commercial information. We discussed this issue with USAID in Washington, D.C., and were told that all of their projects for Poland are listed on the Internet and can be found through the USAID Homepage. While this may be true, we believe that both organizations would benefit from increased contacts and direct information-sharing. Simply having a list of USAID projects is not the same as sharing the wealth of business information and contacts that the USAID contractors and staff have developed in Poland. We do not believe that developing this relationship needs to be the sole responsibility of the SCO, nor would it require extensive amounts of time.

We believe US&FCS Poland would be in a better position to funnel any potential leads to the U.S. business community if a greater effort was made to interact with USAID. Given that US&FCS, at the time of our review, did not have an Internet connection, it can not receive information through this method. In the meantime, we believe that US&FCS should assign one of its officers, Foreign Service Nationals (FSNs), or contractors to request this information on a diskette at least quarterly and to explore other ways for more extensive future information-sharing that would be of mutual benefit.



In responding to our draft report, US&FCS officials concurred with our recommendation to assign a US&FCS Poland liaison with USAID to strengthen information sharing. More specifically, the SCO has already assigned the deputy SCO to this function and is working with USAID to develop programs with the U.S. defense industry in Poland and to place financial advisors in the Ministry of Finance. In addition, US&FCS Poland met with USAID representatives in Milan, Italy, at the TAU Expo show (a Showcase Europe Environmental Show with a focus on Central Europe) during March to coordinate possible future USAID projects in Poland and the region. In April, the SCO also met with USAID to discuss the possibility of developing a new program in which USAID-funded PSCs would work with SCOs in the Central Eastern European region to follow local environmental leads and projects, to bring U.S. business into these projects, and to sponsor company-to-company environmental training. We support the efforts US&FCS has made to improve the relationship with USAID since our field work in September 1996. We encourage further development of this relationship and information sharing between the organizations.

## *2. Conflict with U.S. TDA Potentially Affecting Impact of US&FCS*

We are also concerned about the strained relationship and conflict between the SCO in Warsaw and the Director of TDA. TDA is a commercially oriented, federal foreign assistance agency, which assists U.S. firms by identifying major development projects that offer private sector opportunities in project planning. TDA accomplishes this by financing feasibility studies and

related planning services and training programs. These projects offer good opportunities for U.S. exports of equipment and services. US&FCS operations overseas are able to provide valuable input to TDA's decision to send contractors to investigate a project and in advising the contractor when in country. We believe that this strained relationship between the SCO and the Director of TDA could prevent US&FCS from fully utilizing an important relationship and source of funds to further American commercial interests in Poland.

The problem appears to stem from a misunderstanding of the services expected from US&FCS personnel by TDA administrators and contractors. A senior TDA official informed us that US&FCS posts frequently recommend that TDA investigate a particular project opportunity or sector. Accordingly, due to TDA's small size (approximately 40 people, all based in Washington, D.C.) it must rely heavily on embassy personnel (US&FCS when present) to help them.

The SCO told us that, TDA has a good program and is very important to the Polish market, but that they are too demanding of her and her staff's time. For example, at one point last year, one of the US&FCS trade specialists was working almost full-time on TDA requests. We spoke with TDA officials in Washington, and they do not believe that this is a systemic problem with other US&FCS posts. In general, they believe that TDA has a strong, supportive relationship with most US&FCS posts and appeared to be sympathetic to the SCO's concerns. The TDA official told us that they have been extremely pleased with the aid they have received from US&FCS Poland.

In response to the problem in Poland, TDA recently sent US&FCS headquarters a letter stating its commitment to (1) provide the posts with at least 2 weeks' notice of a TDA contractor visit, (2) require the TDA contractor to utilize US&FCS Gold Key Services (which will give the post additional funding if they need to hire temporary contractors), if such assistance is required, and (3) require TDA contractors to make their own appointments and travel accommodations.<sup>5</sup>

Although the letter from TDA is a positive step, US&FCS headquarters is concerned that this letter addresses only TDA contractors, *not* TDA administrators who can also be demanding. We believe that a Memorandum of Understanding defining the services (both personnel and funding) provided by US&FCS to TDA will could alleviate the problem.

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In responding to our draft report, US&FCS agreed with our recommendation to seek an MOU with TDA defining the services to be provided to TDA by US&FCS personnel overseas.

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<sup>5</sup>Gold Keys refer to a fee-oriented, custom-tailored service which combines market research, assistance in developing sound market strategy, orientation briefings, introductions to potential partners, interpreter for meetings, and effective follow-up planning.

However, US&FCS pointed out that it has unsuccessfully attempted to pursue such a MOU with the current TDA Director. To date, TDA reportedly has been unwilling to go beyond a letter redefining what TDA contractors are allowed to request of US&FCS officers overseas.

Although US&FCS said it would continue to engage in discussions with TDA over these resource issues on a worldwide basis, it also points out that US&FCS Poland has begun to strengthen communications with TDA senior management, and has a good working relationship on all of the projects with which TDA is currently involved in Poland. In addition, the SCO recently participated in a TDA seminar on business opportunities in the Polish telecommunications sector held in Chicago. According to US&FCS, the SCO was able to meet with the TDA Director and discuss how best to improve their communication. While noting and encouraging the progress that has been made since our visit, we reiterate our recommendation that US&FCS continue to pursue an MOU with this important organization.

### **C. Staff Is Effective but Performance Is Endangered by Low Morale**

The majority of the staff told us that there is an ongoing morale problem at the post. We believe that the problem is due in part to a change in management, interruption of annual performance-related bonuses for FY 1995, and the FY 1996 furloughs. We also believe that US&FCS management could take steps to improve the situation as the post continues to move to a more important, sophisticated operation with increasing demands on its time.

According to the staff, the management styles of the previous SCO and the current SCO (who has been in Warsaw for a little over a year) are very different. The staff has clearly not adjusted to this abrupt change of style. Most of the FSNs hired under the former SCO were and remain personally loyal to the previous SCO and are having difficulty making the transition to new leadership. The FSNs feel that the previous SCO appreciated their work and gave them encouragement on a day-to-day basis, which we were told is lacking in the current management regime.

The staff does not feel that the current SCO motivates them or “cheers them on” when they have completed a project. They also stated that the SCO tells them what to do but does not explain why it is important or give them guidance on how to do it. In addition, the FSNs did not receive any cash, performance-related awards/bonuses during FY 1995, whereas under the previous SCO they received cash awards every year. Based on our interviews with the staff, it was evident that these awards were the source of great concern because they could not see where their productivity had declined.

The SCO does not feel that there is a morale problem at the post; she says that her staff is just frustrated. She believes it stems from the fact that the post is growing and being stretched and the

staff has to change accordingly to meet the needs of their clients. She agrees that her management style is very different from the previous SCO, who, in her opinion, did most of the work for the staff. This SCO wants to put the staff on the “front lines” and expects more from them. Essentially, she believes that learning and moving into new responsibilities takes time and training.

However, the SCO told us that now that she has two Americans (a deputy and a newly hired American Personal Service Contractor (PSC)) to help her with the staff, they can help identify areas where the staff can be developed and trained in order to gain the recognition they want. In addition, since our on-site inspection in September, two members of the staff received performance recognition awards at the recommendation of the SCO.

Based on our discussions with the staff, we still believe that there is a morale problem at the post. In our opinion, the low morale has affected the staff’s motivation level, and by extension, its productivity. At best, productivity remains unchanged at a time when demand is increasing for the quantity and sophistication of services/products. The SCO has made it clear that she expects a lot more from the staff than did her predecessor. The staff needs to see an incentive for making this change, and the SCO needs to provide the motivation and training, as needed, to help them meet the higher level of expectations.

We agree with the SCO’s plan to use the two Americans to provide the staff with extra guidance. We also think that the SCO should inform the FSNs of the standards she uses to determine performance awards.



In responding to our draft report, US&FCS generally agreed with our recommendation to ensure that the SCO provides her commercial staff with specific standards used to determine the criteria for annual performance awards. Specifically, the SCO intends to meet with her staff and outline her standards. In addition, the SCO has agreed to use these two awards as models when communicating to the staff the basis on which awards are to be presented in the future. We believe that these are important first steps in addressing the office’s morale problem. We encourage the SCO to follow through with communicating performance standards and incentives to her staff and to maintain active and positive communications.

**D. Better Focus on ICASS Required to Minimize Increases in Administrative Support Costs**

The SCO in Poland has not adequately focused on critical changes taking place in the overseas administrative cost system that could drastically change the post's support costs. In FY 1996, Poland was one of four pilot sites for testing the State Department's new cost-sharing system, the International Cooperative Administrative Support Services (ICASS). During this pilot phase, the Poland ICASS Council focused on organizing itself and planning for ICASS implementation.

Unfortunately, the SCO, out of frustration with the ICASS Council, delegated US&FCS's ICASS responsibilities initially to her deputy, then to an American contractor. Though delegation of routine ICASS duties and participation to the ICASS Working Group may be beneficial, we emphasize the importance of the SCO being knowledgeable of all key ICASS issues and US&FCS Poland having a strong and informed voice on the Council.

Under ICASS, which is scheduled for full implementation in FY 1998, charges to Commerce and other federal agencies are expected to increase significantly worldwide (perhaps by 100 to 150 percent). The cost increases will come in large part because the pool of shared costs will be increased as the State Department shares costs which it previously had covered. State claims that it can no longer subsidize such services as local security guard services, utilities, and certain building maintenance for government owned and long-term lease buildings.

US&FCS Poland needs to play a strong and active role on the ICASS Council, as well as fully explore other ways to reduce its costs when ICASS is fully implemented in FY 1998. If even a small fraction of the additional charges can be saved, it will result in savings for US&FCS Poland. Lessons learned in Poland can also provide valuable insights to US&FCS headquarters so that costs could be kept to a minimum at its other posts.



In responding to our draft report, US&FCS stated that US&FCS Poland is an active participant in the ICASS initiative and that since the OIG on-site inspection in September, "the situation has greatly improved: Council meetings are better organized, shorter, and have agendas, and the SCO is playing an active role in all Council meetings." We are encouraged that US&FCS Warsaw has stepped up its participation in the ICASS Working Group by assigning the American PSC to represent US&FCS interests. We hope US&FCS uses its participation in the Working Group to creatively look for ways to reduce the cost of services. We are also encouraged that the ICASS Council appears to be working more productively than in the past and that the SCO is staying engaged in this process. We recommend that the SCO continue to play an active role on the ICASS Council, as well as fully explore other ways to reduce its costs and fund efficiencies.

## **II. US&FCS POLAND HAS THE POTENTIAL TO INCREASE ITS EFFECTIVENESS WITH ADDITIONAL STAFF RESOURCES AND TRAINING**

Although US&FCS Poland is doing an excellent job of promoting U.S. trade, US&FCS needs to assess whether the current level of post's staffing and resources is adequate for the needs of U.S. industry. Now that the Polish market is growing in market size, complexity, and geographic distribution, US&FCS needs to analyze the current level and dispersion of resources in context with its priorities worldwide. In addition, the staff lacks critical training necessary to promote U.S. firms as efficiently and effectively as possible. We noted that the assignment of staff resources to Poland from the Central Eastern Europe Business Information Center (CEEIBC), which is under MAC, has worked well and has allowed for at least the temporary extension of staff resources in Poland, to the benefit of American business. (See page 27.)

### **A. Post Staffing Resources Should Be Analyzed to Determine Long-Term Adequacy**

Poland's economy is the fastest growing economy in the region. However, as discussed earlier, the Polish market is still a difficult one to navigate for American businesses and is replete with obstacles. As a consequence, some American businesses have suggested that an expanded US&FCS presence in Poland is necessary. Although Poland is a BEM country, headquarters officials said that it has not been among the highest priorities of US&FCS management in terms of resources. However, we believe that a strong case can be made for expanding the resources and dispersing of US&FCS resources in Poland, at least on a temporary basis and possibly for the long-term. We maintain that US&FCS should do an analysis to determine whether additional resources should be reallocated to US&FCS Poland, taking into account its priorities worldwide. We believe that at least consideration of additional resources on a temporary basis, dispersed outside of Warsaw, may be beneficial to U.S. business interests and would allow US&FCS to determine the efficacy of placing additional resources in Poland for the long-term.

According to the Trade Policy Coordinating Committee, American companies seeking to do business in the BEMs often require the assistance of the U.S. government to a greater extent than those doing business in more traditional markets. The reasons provided are two-fold: (1) Market access issues are more complex, thereby making in-depth market information and market-opening policy initiatives essential, and (2) many of the greatest opportunities lie in state-owned infrastructure sectors, where government advocacy is sometimes vital to closing sales.<sup>6</sup>

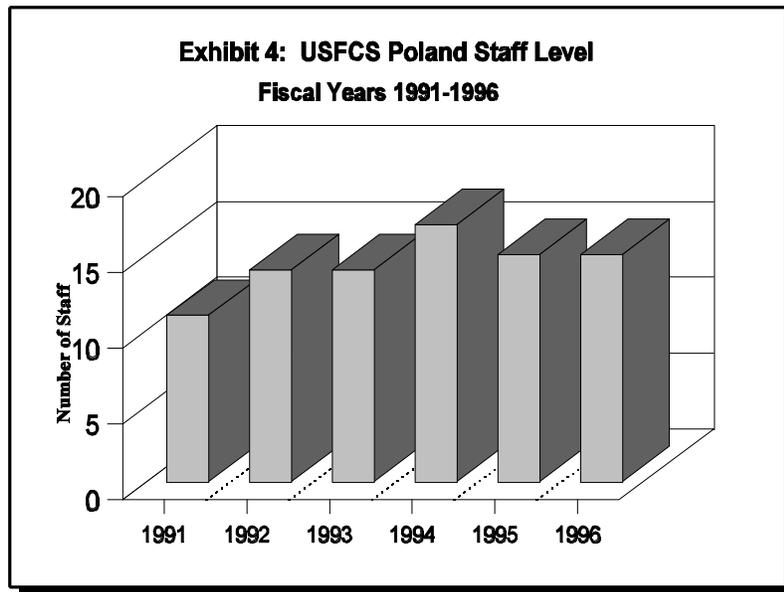
Although routine US&FCS Poland client services, such as Gold Keys (an average of 33 conducted in FY 1995/96, compared to none in FY 1994) and ADS (an average of 17 in FY

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<sup>6</sup>TPCC's Fourth Annual Report to the Congress, October 1996.

1995/96, compared to 15 in FY 1994), have not increased significantly in the last year, US&FCS Poland has been far from inactive. In FY 1996, it hosted three Governor-led missions compared to none in FY 1995. The SCO told us that she felt that the workload of her staff had increased significantly in the last year. What is more clear from discussions with clients and staff is that demand for US&FCS services and products are substantial and could grow exponentially in the short-term, especially its involvement in investment and trade barrier issues.

Poland has emerged as the fastest growing economy in Europe, and is the largest market in the region for U.S. exports. U.S. exports to Poland in 1995 amounted to \$776 million, an increase of 24.1 percent from 1994. However, staffing resources in US&FCS Poland have not increased commensurately. According to some US&FCS managers, one reason that Poland has not received an increase in resources like other BEM countries is because it is located in Europe, which is not a priority under the current US&FCS leadership. The following exhibit shows the level of staffing resources provided to US&FCS Poland since 1991.



Although at first glance a staffing level of 15 may appear adequate for the post, a closer review (see Table 1) shows that this number constitutes a number of positions other than trade specialists. For instance, included in this number is an American secretary, Polish secretary (who also acts as the librarian), administrative assistant, receptionist, chauffeur, and custodian. It

should also be noted that 15 is 2 fewer staff than the post had at the beginning of FY 1994, and lower than in many other BEM countries (such as Indonesia with a staff of 28, Taiwan with 28, and Brazil with 50).<sup>7</sup>

At the time of our on-site inspection, there were two American officers assigned to US&FCS Poland, but one was on maternity leave (she returned in January 1997 after a three-month absence). A trade specialist from one of the US&FCS domestic offices filled in during her absence. However, both the SCO and the Ambassador commented that although this individual was gaining valuable knowledge about the Polish market to take back to her district office, they did not consider her an adequate replacement for the commercial officer because she was not familiar with the issues facing U.S. businesses in Poland, nor did she speak the language. As a consequence, the SCO had the detailee doing editing work until she was replaced with another trade specialist from a domestic office who speaks Polish and had previously spent time at the post.

**Table 1: US&FCS Staffing Resources in Poland  
(as of 9/96)**

Post	American Officer(s)	FSN(s)	American PSC(S)	Polish PSC(S)
Warsaw	2	7 <sup>a</sup>	2	5 <sup>b</sup>
Krakow	0	0	0	1 <sup>b</sup>
Poznan	0	0	0	Part-time <sup>c</sup>

<sup>a</sup>Includes Librarian.

<sup>b</sup>Includes a CEEBIC contractor.

<sup>c</sup>DOS, USIS, and US&FCS share the expenses of the contractor. Currently, the PSC spends at least a quarter of her time on commercial activity; therefore, US&FCS is responsible for 25% of her salary.

The SCO was pleased that she was able to recently hire an American PSC who speaks Polish, to essentially act as her “third officer.” Some of his responsibilities include coordinating with the Central Eastern European Newly Independent States (CEENIS) team, consulting with U.S. firms, as well as being the administrative manager for the post.<sup>8</sup> The PSC started in this position the day we arrived to conduct our field work in Warsaw.

<sup>7</sup>Source: US&FCS, *BEM Staffing Changes Since 1 October 1993*, 9/10/96.

<sup>8</sup>Although PSCs were originally used as a stopgap measure by US&FCS since FTEs were not available, they are now becoming more of an integral part of the US&FCS Poland operations, as well as in other US&FCS posts worldwide.

There are currently only six trade specialists in US&FCS Warsaw to cover all of Poland and the multitude of industries and markets in this growing economy. The SCO believes that she will need one or two additional trade specialists over the next few years in order to adequately carry out post responsibilities. The majority of the trade specialists are responsible for more than five sectors, as well as major issues affecting U.S. business in Poland. The risk, of course, is that each trade specialist is stretched too thinly over many industries, making coverage of some or most industries potentially inadequate. The SCO agrees and feels that her trade specialists are covering too many industry sectors, which she believes are increasingly getting more complex, as are client needs. As pointed out earlier, the SCO contracted out 10 of the 23 ISAs the post submitted in FY 1996 because of the post's stretched resources.

Cognizant officials and private sector representatives in Poland agree that the US&FCS Post may not have adequate resources to provide all services demanded. In our meeting with the Ambassador, he stated that US&FCS Poland's resources were stretched. The Director of the AmCham stated that he also believed that the US&FCS trade specialists were covering too many areas simultaneously, stating that there was "no way six FSNs can cover all industry sectors *in-depth*—FCS needs to spread the load." Another American firm representative we spoke with commented that "FCS has its analysts covering too many areas. The market is big here and it is hard for a small operation to cover so many areas." We also had the impression that the trade specialists in the office were covering what seemed to be an impossible number and variety of industries each, with the potential effect that no trade specialist will have the depth of knowledge needed to best assist American companies.

One reason that US&FCS might consider additional resources for Poland is to more adequately cover potential commercial opportunities outside of Warsaw. The SCO informed us that commercial support in industrial areas outside Warsaw is increasingly required. Currently there are no trade specialists in satellite areas except a part-time contractor in Poznan and a CEEBIC contractor in Krakow. According to the SCO, more U.S. firms, especially small and medium sized ones, are exploring market opportunities beyond Warsaw. The AmCham has already expanded its chapters to Krakow and Poznan, in recognition of market potential.

The SCO sees a need for full-time trade specialists in Gdansk, Krakow, and Poznan. (See Exhibit 5.) She noted that business activity in these areas is strong and that other countries, such as Germany, have already set up trade offices in these places. She stated that US&FCS is needed in these areas to assist companies setting up shop or bidding on local tenders. Currently, the Warsaw office is having to follow up on these problems which the SCO says is tough to do since it is more effective to talk face-to-face with the local government officials responsible for business activity. The central government has recently delegated responsibility for privatizing several companies to local officials.



Gdansk, located on the Baltic Sea, is Poland's largest port city. The city is a major industrial center for shipyards, chemical plants, and food-processing facilities. Krakow is considered to be a historical, cultural, intellectual, and political center in Poland. There is currently a U.S. Consulate General located in Krakow, and US&FCS frequently sends trade missions and American business representatives there. New coal technologies are being introduced in this region to reduce pollution and increase industrial efficiency. A similar effort addresses the retrofitting of the steel, aluminum, and glass industries in the Krakow area, thus offering significant market opportunities for American companies.

The Poznan consular district is home to a growing services sector and light industries which, according to US&FCS, show the potential for early commercial entry by U.S. exporters. After the closure of the U.S. Consulate General in Poznan in 1995, US&FCS Warsaw sought other help to promote American business in the western region of Poland, especially since the largest trade shows in Poland occur in Poznan. Subsequently, it was decided that the State Department's consular agent in Poznan would spend approximately 25 percent of her time supporting commercial work.<sup>9</sup> Although this arrangement has proven helpful to US&FCS Warsaw, the SCO

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<sup>9</sup>The contract is pro-rated among State, USIS, and US&FCS. Currently, US&FCS funds 25 percent of the position.

believes that a full-time trade specialist is needed to consult with American companies and assist firms exhibiting at the trade shows in Poznan.

We believe US&FCS should reassess resource levels in Poland and determine whether additional resources may be needed to expand commercial coverage there. One option that US&FCS should explore to expand its operations outside of Warsaw would be to hire a PSC for each of the three growth regions on an experimental basis (perhaps for one year, with options to extend at the discretion of US&FCS) to determine what the impact would be for U.S. firms. In addition, US&FCS Poland may want to explore the possibilities of collocating these contractors with other multipliers (e.g., the AmCham) or other U.S. government agencies (e.g., USIS).



In responding to our draft report, US&FCS generally agreed with our recommendation to determine whether additional resources may be needed to expand commercial coverage and consider whether to hire a PSC for each of the three projected growth regions on an experimental basis to determine what the impact would be for U.S. firms. Specifically, the response stated that US&FCS headquarters recently (1) renewed the American PSC contract, (2) agreed to assume financial responsibility for the CEEBIC PSC in Warsaw, and (3) approved the placement of three Polish PSC trade specialists in Poznan, Gdansk, and Krakow to determine whether these additional resources would provide cost-effective benefits to U.S. business. In addition, they point out that the three regional PSCs will be assigned industry-sector responsibilities appropriate to their regions in order to address our concerns about stretching US&FCS Warsaw's resources too thin. We encourage US&FCS to follow through on this commitment and place the three PSCs in these cities as soon as is practical in order to evaluate the impact upon American trade opportunities.

## **B. Training Is a Critical Need for Foreign Service Nationals**

The FSNs who handle the day-to-day work of promoting U.S. exports are crucial to the overall and long-term operation of US&FCS overseas posts. They provide local expertise on how the country market functions, and they possess the long-term contacts needed to find the commercial information to aid U.S. businesses. However, many of the FSNs in Poland need even basic training to improve their ability to promote U.S. exports. According to the SCO, most of the FSNs were hired when American companies were usually only being provided general information about the country. Now, however, the job calls for more sophisticated skills and enhancing the commercial staff's skills is now essential. The SCO should establish a program for her employees that provides formal and informal training needed to improve the staff's productivity, quality, and efficiency.

1. *FSNs Lack Professional Development Training*

There is a strong, immediate need for professional development training for the US&FCS staff in Warsaw. According to US&FCS training records, fewer than half of the commercial staff in Poland have received any training in either “business counseling” or “market research.”

The majority of the trade specialists we interviewed expressed their concerns about the lack of training (e.g., methods, techniques, and strategies of collecting and analyzing market information), which prevents them from adequately conducting the work required of them. The SCO agreed that training is critically needed to help improve the skills of her staff. Specifically, she believes that the staff’s market research skills are poorly developed, which slows them down when preparing ISAs and hinders them from identifying better IMIs.

Headquarters did not know why the staff had not previously received training and stated that the SCO did not inform them until recently that training was a major issue at the post. In fact, headquarters officials pointed out that they were initially surprised about the lack of training at the post because the SCO had nominated only one trade specialist for market research training last year. After our on-site visit, the SCO submitted to headquarters a comprehensive list of training needs for her staff, including:

- ! Market Research
- ! Writing/Editing
- ! Project Financing
- ! Industry Sector Training
- ! Administrative

The SCO believes that it would be beneficial to get some of this training from local contractors because they would be better able to focus on US&FCS Poland’s needs. In particular, she thinks this would be helpful for training in market research, report writing, and project financing. On the other hand, training specific to a trade specialist’s job (i.e., business counseling) could be provided by headquarters. The SCO informed us that this training should make a big difference in the skill level of the staff.

Headquarters, in consultation with the SCO, should immediately arrange for training of this commercial staff. We also believe it may be beneficial to offer some of these courses on a regional basis (e.g., in central and eastern Europe), enabling more FSNs from developing countries to participate and possibly reduce costs associated with sending FSNs to Washington, D.C.

## 2. Computer Training Needed for Better Efficiency

The US&FCS staff also lacked adequate computer training and were frustrated in their use of the LAN, basic software like Windows, and US&FCS systems such as the Commercial Information Management System. Most of the trade specialists knew just the bare minimum of how to use their computers and Windows software. We were told that recent training on Windows was inadequate because it focused only on the basics. The staff really did not know how to use the many time-saving advantages offered by the system. Software training will enable the staff to be more efficient by spending less time performing word processing-related tasks and more time assisting U.S. firms.

We were told that training in-country was difficult to obtain and that the elimination of the Regional Area Coordinators in US&FCS had severely affected opportunities for systems and software training. Since our on-site inspection, the SCO was provided funding to hire a local contractor to provide computer training for the staff. According to the SCO, most of the training has now been completed. We are addressing the issue of providing adequate information technology support to US&FCS worldwide in a follow-up report to our inspections in FY 1996.



In responding to our draft report, US&FCS strongly concurred with our recommendation to arrange for training in order to improve the market research and business counseling skills of the trade specialists at the post. Specifically, US&FCS stated that it included the newly-hired trade specialist in the FSN business counseling and market-research course held in March 1997 in Washington, and will include a second trade specialist in the next FSN course, scheduled for June. Although US&FCS's response indicates that it will continue to reserve space for US&FCS Poland employees in future US&FCS training programs, we reiterate the importance of professional development training (e.g., "business counseling" or "market research") for US&FCS Poland, especially since less than half of the commercial staff have received such training.

In addition, the response indicated that US&FCS will explore the possibility of holding market-research seminars in Europe that would include a number of trade specialists from Poland. We strongly encourage US&FCS to explore the benefits of offering some of these courses on a *regional basis* (e.g., in central and eastern Europe), enabling more FSNs from developing countries to participate and possibly reduce costs associated with sending FSNs to the United States.

### C. CEEBIC Has Extended US&FCS Poland's Resources and Enhanced Its Program

The Central and Eastern Europe Business Information Center (CEEbic) offers a variety of services to the U.S. business community to facilitate trade and investment between the United States and Central and Eastern Europe. CEEbic, located in Department of Commerce headquarters, was created to be a one-stop shop for information on doing business in the Central and Eastern European region. CEEbic, a service of the Market Access and Compliance office in ITA, is essentially a clearinghouse for information on potential partners, economic conditions, regulations, and financing for the Eastern European region.<sup>10</sup>

At the time of our on-site inspection, there were two CEEbic contractors in Poland—one in Warsaw and one in Krakow. The contractors help to disseminate trade leads offering the best growth prospects for U.S. exporters, in-depth industry sector reports, and other market information gathered by US&FCS in Poland. Through CEEbic's monthly publication, *Poland Looks for Partners*, the contractors are able to highlight the latest commercial information, as well as trade and investment leads to help substantially to increase awareness of the Polish market throughout the United States.

Although the CEEbic contractors focus their activities on working with the Polish business community to obtain trade leads for American businesses, it appeared that they were supplementing the US&FCS staff efforts. For instance, in FY 1996, the CEEbic contractor in Warsaw prepared 49 reports, including both commercial lead submissions and IMIs. In addition, the contractor assisted and participated in most of the commercial service events and programs including trade promotion activities, such as Gold Keys, trade missions, and International Buyer Program trips. Due in part to the lack of a US&FCS presence in Krakow, the CEEbic contractor there provides a supportive role by being a focal point for U.S. firms visiting this area. CEEbic relies on the post management to provide day-to-day guidance to its contractors and program, and the SCO agreed that the contractors were supplementing her staff, but pointed out that they are *not* a substitute. In fact, she is concerned that in the near future, they might not have any time to help the US&FCS operation because the new Director of CEEbic has devised new work plans for these contractors that may add new work requirements.

We agree that the CEEbic contractors are not a substitute for trade specialists and that headquarters still needs to address the US&FCS resource issue in Poland. However, we were pleased to see how well US&FCS (through its Poland operation) and MAC (through its CEEbic Program) worked together on a common goal—promoting U.S. interests in Poland—during this time of ITA resource constraints.

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<sup>10</sup>In previous years, CEEbic was totally funded by USAID through technical assistance (SEED Act) funds; however, under a new joint arrangement in FY 1997, the Department of Commerce will provide funding for most of the domestic expenses, while USAID will primarily fund the overseas network.

Although at post, CEEBIC contractors report to the SCO, they really work for MAC. While we noted no problems with the relationship between CEEBIC and US&FCS Poland, we believe that the situation is awkward and could lead to either overlapping functions or activities that may not support the post's priorities. While we have not evaluated the CEEBIC program and how well it integrates with other US&FCS posts, we believe that there is a potential for an ineffective use of ITA resources. Clearly this is a situation and issue that should be monitored very closely.

#### **D. Commercial Library May Not Be Necessary**

The commercial library at the US&FCS Warsaw post, located just outside of the US&FCS operations, appeared neat, attractive, and well-organized. However, while the library has a large collection of reference books, a quick review determined that at least some of the material was out-of-date. Furthermore, the library has inadequate controls over who uses it and does not measure its usefulness. We believe US&FCS Poland should consider how necessary this library is to US&FCS operations, analyze the cost of the operation (leased space) in terms of its importance, and determine whether alternatives exist to its continued maintenance.

Our review of the library found that, while it is well-maintained, post management does not possess current information on who uses the facilities, how often, or for what purpose. US&FCS Warsaw has a log book to record the visitors to the library; however, there were no required entries from visitors after February 1996, and we were later advised that it was no longer being used. In addition, the librarian, who is located inside the commercial facilities, could not always see who actually visited the library.<sup>11</sup> Without these controls, any views on the importance of the facility are speculative.

Since 1992, US&FCS has considered publicly accessible commercial libraries "elective" and discouraged their use. The SCO needs to determine who is using the commercial library and for what purpose. If the library is not being used frequently or being used for the "wrong" reasons (e.g., local students researching jobs in America), the SCO should consider closing the facility and using the space for other commercial programs. Another option the SCO should examine is combining US&FCS Poland's commercial library with the United States Information Service's (USIS) American Information Resource Center in the embassy. Although it is not a "library," it is equipped with computers that have Internet access. We believe that opportunities for collocation, cooperation or, at minimum, reduction of any redundant materials should be explored with USIS.

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<sup>11</sup>The facility is located outside of the main entrance to the US&FCS office. The only control over entry to this facility was the security guard, whose job was to have visitors pass through a metal detector and to randomly search packages coming into the facility. It did not appear that the guard was otherwise screening visitors to the library.

In responding to our draft report, US&FCS agreed with our recommendation to determine who is using the commercial library and for what purpose. Specifically, the response indicated that since our on-site inspection in September, US&FCS Poland has begun tracking the usage of the commercial library and plans to continue monitoring its usage and the purpose that its clients plan to make of the information they receive through the balance of the fiscal year. The SCO plans to develop procedures to guide the librarian on how library visitors' needs can be related to US&FCS products and services and on how to make referrals to the appropriate industry specialists. After a complete review of its use, the SCO will decide whether to close the library.

With regard to collocating with the USIS library, the response states that the SCO and the Ambassador have discussed the possibility of collocation and agreed that it is not a good idea because the USIS library is located within the embassy, and the commercial specialists with the sectoral knowledge to counsel the visitors are located 20 minutes away. Until US&FCS knows more about the visitors to its commercial library, we do not believe that US&FCS has sufficient data to determine whether any opportunities for collocation of materials or reduction of redundant sources exist for either organization. We suggest that US&FCS revisit the collocation issue, along with all other viable options for providing library services, at the conclusion of its review period.

### III. U.S. BUSINESS CLIENTS GENERALLY PLEASED WITH POST'S PERFORMANCE

In general, American businesses in Poland believe the U.S. embassy in general, and the US&FCS operation specifically, is doing a good job of supporting trade and business interests in Poland. We observed that the embassy has a reputation for its successful efforts in support of U.S. business in Poland. We received input and spoke with various representatives from a wide range of small to large American businesses, including Amoco, Lockheed-Martin, General Motors, Pepsi, International Home Products, Suburbia Systems, and Environmental Management & Design Group, and determined that they had an excellent working relationship with US&FCS Poland. In general, they were pleased with US&FCS services and products and indicated that the need for an US&FCS presence in Poland will persist for the foreseeable future. Some of the comments we heard include:

*US&FCS has been instrumental in our assimilation into the market. They are probably one of the reasons we are still here.*

*We needed US&FCS 2-3 years ago for knowledge about entering the Polish market—now we need them for advocacy. However, smaller companies entering the market will still need the basic information.*

According to one participant in an environmental trade mission conducted in 1996 in Poland:

*Our choice to contract with the U.S. Commercial Service as our in-country organizers proved to be a good decision. Considering the drastic political and economic changes Poland underwent from the time we started to prepare for the mission until today, we needed a well established and connected in-country organizer.*

In addition, some of the comments from a Matchmaker Delegation consisting of 10 consumer goods companies include:

*...with your help we identified six real prospects, from which we expect to select two to perform as an importer/distributor for our products—one for the south of Poland and one for central and northern Poland.*

*...the information we were given was well-researched and very helpful. The customer firms were very well screened.*

The AmCham staff in Poland were also strong supporters of the US&FCS staff. They indicated that their cooperation and coordination with the commercial section was excellent. They

expressed their pleasure that the current SCO co-chairs the Energy Committee in the AmCham and was instrumental in getting the committee going when it appeared that it would not take off. We were also informed that the SCO is developing a Telecommunications Committee in the AmCham to address issues in this large, complex sector. One member of the AmCham stressed how important these committees were because the problems in Poland transcend single company issues and the U.S. government needs to help leverage these problems.

#### IV. EXPORT ADMINISTRATION REQUIREMENTS GENERALLY HANDLED WELL

The Department's Bureau of Export Administration (BXA) relies on the US&FCS posts to assist in fulfilling its export licensing and control activities. Specifically, BXA requests the posts to perform Pre-license Checks (PLCs) and Post-Shipment Verifications (PSVs) to verify the legitimacy of certain export transactions and help provide vital information to help BXA make decisions on specific export license applications.

BXA issued new guidance for conducting end-use checks in March 1995 and published a revised handbook, *How To Conduct Pre-License Check and Post-Shipment Verifications*, in March 1996. The new guidance emphasized that these checks should be conducted in person and that they should not be performed by foreign service nationals unless a waiver had been granted by BXA.

In addition, BXA sent an official to Warsaw in FY 1995 to work with US&FCS there on various BXA-related issues. Some of the activities included (1) training the US&FCS staff on U.S. and Polish dual-use export licensing requirements, (2) conducting in-depth briefings on dual-use export control issues for other embassy sections, and (3) arranging a presentation for the AmCham in Warsaw on U.S. and Polish dual-use export licensing requirements.

A review of the available records and interviews at the time of our on-site visit in Warsaw indicated that the checks were conducted on-site by a commercial officer. In addition, US&FCS Poland provided BXA with detailed, timely reporting based on the checks. BXA officials informed us that they were satisfied with the information US&FCS Poland provided them on the end-use checks conducted.

However, we did discover in January 1997, that US&FCS Poland allowed an American PSC to conduct an end-use check. Because this American PSC's title is Commercial Attaché, BXA officials assumed that this individual was a commercial officer and approved the end-use check results. After our recent discussion with BXA officials on this matter, it is clear, *at this time*, that BXA does not condone the use of PSCs to conduct end-use checks without prior approval. If the SCO wants to allow the American PSC to conduct these checks, she needs to seek a waiver from BXA. In the interim, the SCO should ensure that only commercial officers are conducting the checks.



In responding to our draft report, US&FCS agreed with our recommendation that only commercial officers conduct all pending and future BXA end-use checks unless a waiver is obtained. Specifically, the SCO agreed to seek a waiver from BXA to enable the American PSC

to conduct these checks *only* if an American officer is not available to perform a check in a timely basis.

## V. ADMINISTRATIVE MATTERS GENERALLY HANDLED APPROPRIATELY

We reviewed the basic internal controls in place at post associated with the collection and disbursement of funds. This was particularly crucial in a country that still lacks an adequate banking system and, consequently still handles many transactions in cash, including payments for goods and services. In general, US&FCS Poland handles more cash transactions than might be expected.

We found, with a couple of minor exceptions, that US&FCS Poland has adequate internal controls over its handling of funds and transactions. We conducted a full survey of the procedures for both petty cash and transaction handling. We found that the cashier's accountability for funds balanced against the cash and records on hand. In addition, we reviewed a sample of recent purchases and verified all outstanding obligations and advances. Cash balances and interim receipts reconciled with the fund's authorized 300 zloty level and additional 100 dollar level. We also found that large collections were deposited appropriately and according to requirements. A review of a small sample of transactions/procurements found no improprieties. In addition, we spoke with the General Services Officer in Poland who informed us that generally there are no problems with US&FCS and that she has a good relationship with the SCO.

Departmental property management regulations require that all Commerce units maintain property records and perform periodic physical inventories to validate the accuracy of property records. Our review of available property records indicated that adequate procedures were in place to ensure the proper control over property and equipment in the possession of the commercial staff in Warsaw.

We did note two small problems. First, some fund monies (collected as payment for goods and services for US&FCS) were stored in an unlocked metal cash box under the receptionist's desk.<sup>12</sup> Not only was the box unlocked, but it was not stored in an approved locked cabinet or container, and it was easily portable. Although all of the money was accounted for, it is imperative that the box itself be locked and then stored in a locked cabinet. Second, personnel files, including performance appraisals, were in the same cabinets with commercial information that is accessed on a daily basis and is usually unlocked. We believe that the SCO should put sensitive files of this nature in a separate, locked container.

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In responding to our draft report, US&FCS agreed with our recommendations (1) to secure all fund monies in a locked box and store it in a locked cabinet and (2) move personnel files to a

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<sup>12</sup>As noted, the banking system is not yet fully established, and relatively few payments are made by check or with credit cards.

secure, locked container. Specifically, the response indicated that the post has already purchased a locked box and placed it in a secure file cabinet. In addition, US&FCS indicated that upon the purchase of a secure file cabinet, the post will move the personnel files to that cabinet.

## **RECOMMENDATIONS**

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service direct appropriate officials to:

1. Develop a mechanism to determine the impact and client satisfaction for US&FCS's products and services.
2. Incorporate into the Country Commercial Guide information on individual Polish provinces that US&FCS believes represent new market opportunities.
3. Seek a Memorandum of Understanding with the U.S. Trade and Development Agency defining the services provided to TDA by US&FCS personnel overseas.
4. Reassess the resource levels in Poland, in the context of other BEM posts, and determine whether additional resources may be needed to expand commercial coverage. Consider whether to hire a Personal Service Contractor for each of the three projected growth regions on an experimental basis to determine what the impact would be for U.S. firms.
5. Arrange for training in order to improve the market research and business counseling skills of the trade specialists at the Poland US&FCS post.
6. Assign a staff member to act as a liaison with USAID Poland in order to improve information sharing between the two operations. At a minimum, the SCO should request a list of all USAID projects and contractors from USAID Poland on a quarterly basis.
7. Ensure that the SCO provides her staff with specific standards used to determine the criteria for annual performance awards.
8. Ensure that the SCO plays an active role on the ICASS Council, as well as fully explores other ways to reduce its costs and fund efficiencies.
9. Determine who is using the commercial library and for what purposes. If the library is not used frequently or is used for reasons not consistent with US&FCS's mission, the SCO should close the facility. Determine whether opportunities exist to coordinate with or collocate materials with the USIS library or to reduce redundant materials, as appropriate.
10. Ensure that only commercial officers conduct all pending and future BXA end-use checks unless a waiver is received from BXA.

11. Secure all fund monies in a locked box and store it in a locked cabinet.
12. Move personnel and any other sensitive files to a secure, locked container.

**Appendix 1**

**GLOSSARY OF ACRONYMS**

BEM	Big Emerging Market
BXA	Bureau of Export Administration
CCG	Country Commercial Guide
FAAS	Foreign Affairs Administrative Support
FSN	Foreign Service National
ICASS	International Cooperative Administrative Support Services
ITA	International Trade Administration
MAC	Market Access and Compliance
MOU	Memorandum of Understanding
OIG	Office of Inspector General
PSC	Personal Service Contractor
PSV	Post-Shipment Verification
RAC	Regional Area Coordinator
SCO	Senior Commercial Officer
TDA	U.S. Trade and Development Agency
US&FCS	United States and Foreign Commercial Service
USAID	United States Agency for International Development
USIS	United States Information Service

## Appendix 2

### GLOSSARY OF US&FCS SERVICES

**Industry Sector Analysis (ISA)**-structured market research reports produced on location in leading overseas markets. Reports cover market size and outlook, characteristics, and competitive and end-user analysis for a selected industry sector in a particular country. ISAs are available on the National Trade Data Bank and the Economic Bulletin Board.

**International Market Insights (IMI)**-short profiles of specific foreign market conditions or opportunities prepared in overseas markets and at multilateral development banks. These non-formatted reports include information on dynamic sectors of a particular country. IMIs are available on the National Trade Data Bank and the Economic Bulletin Board.

**Customized Market Analysis (CMA)**-market research made to order. A CMA report assesses the market for a specific product or service in a foreign market. The research provides information on sales potential, competitors, distribution channels, pricing of comparable products, potential buyers, marketing venues, quotas, duties and regulations, and licensing or joint venture interest.

**Trade Opportunity Program (TOP)**-timely sales leads from international firms seeking to buy or represent U.S. products or services. TOP leads are printed daily in leading commercial newspapers and distributed electronically via the Department of Commerce Economic Bulletin Board.

**Agent/Distributor Service (ADS)** - customized overseas search for qualified agents, distributors, and representatives for U.S. firms. Commercial officers abroad identify up to six foreign prospects that have examined the U.S. firms' product literature and expressed interest in representing the U.S. firm's products.

**Gold Key Service**-custom-tailored service that combines orientation briefings, market research, appointments with potential partners, interpreter service for meetings, and assistance in developing follow-up strategies. Gold Key Service is offered by the Commercial Service in export markets around the world.

**Matchmaker Trade Delegations** - "match" U.S. firms with prospective agents, distributors, and joint venture or licensing partners abroad. The Commercial Service staff evaluates U.S. firms' products and services marketing potential, finds and screens contacts, and handles all event logistics. U.S. firms visit the designated countries with the delegation and, in each country, receive a schedule of business meetings and in-depth market and finance briefings.

**International Buyer Program (IBP)**-supports selected leading U.S. trade shows in industries with high export potential. Department of Commerce offices abroad recruit foreign buyers and distributors to attend the U.S. shows while program staff helps exhibiting firms make contact with international visitors at the show. The IBP achieves direct export sales and international representation for interested U.S. exhibitors.



**UNITED STATES DEPARTMENT OF COMMERCE**  
**International Trade Administration**  
Washington, D. C. 20230

APR 10 1997

**MEMORANDUM FOR:** Frank DeGeorge  
**FROM:** Lauri Fitz-Pegado   
**SUBJECT:** Draft Inspection Report on US&FCS Poland

Thank you for your thorough report on the Commercial Service operations in Poland. We have reviewed the report and find your insights and recommendations very useful. We are eager to carry out the recommendations and have already begun the process of implementing several, as described in the attachment, and have assigned high priority to undertaking proper implementation of the balance. The Commercial Service appreciates this opportunity to reflect on the changes that have taken place in the CS Warsaw operations, putting into perspective its growth and its response to market needs. The needs of the U.S. business community have changed dramatically in the past five years, as witness post's advocacy work. Your report provides a timely opportunity to take stock for future operations.

I have attached our response to the 12 recommendations from your draft report of February 28, 1997. The attachment addresses your recommendations and describes actions we have taken or plan to take in response to your observations.

**Attachments**

cc: Stuart Eizenstat



**1. Develop a mechanism to determine the impact and client satisfaction from US&FCS products and services.**

While this recommendation seems to speak to the need for developing a worldwide US&FCS mechanism to assess client satisfaction with US&FCS products and services, in this response we will address the issue as it relates directly to CS Warsaw. While there are guideline numbers for the production of ISA reports (as a medium-size post, CS Poland's target is 12), the staff select topics for market-research reporting based on known client needs, and in fact produced 23 ISAs in FY 96.

- o FCS headquarters has a specific process for examining the requirements of business and its needs for reporting on the market place. This includes input and review from our trade-development specialists, our market-access specialists, and EPS. Based on this input, which usually reflects direct requests from the business community, recommendations are shared with posts.
- o Posts in turn rely on internal knowledge of the evolution of the host-country's market and on feedback and demand from users to fine tune the production and targeting of reports.

**2. Incorporate into the Country Commercial Guide information on individual Polish provinces that US&FCS believes represent new market opportunities.**

We concur with this recommendation and plan to include material on Poznan, Gdansk, and Krakow, the major industrial regions outside Warsaw, in the FY-98 CCG (which will be drafted in July).

**3. Seek a Memorandum of Understanding with the U.S. Trade and Development Agency defining the services provided to TDA by US&FCS personnel overseas.**

Post has the very strong and active support of the TDA program. As the fastest-growing economy in the CEE, there are great opportunities in Poland, especially in the area of infrastructure and telecommunications projects, for working with TDA and AID programs. We believe the report has properly identified the concern between TDA and CS as a resource issue which is applicable to CS/TDA projects worldwide, but which is especially acute in Poland because of TDA's strong strategic focus there. Post has already undertaken to strengthen communications with TDA senior management, and has a good working relationship on all of the projects with which TDA is currently involved in Poland, as the attached list of recent and current activities, covering the period June 95-June 97, demonstrates.

Continuing the keen program cooperation between CS Poland and TDA, SCO Andrews recently agreed to take a day from her home leave in order to participate, at TDA's invitation, in a seminar on business opportunities in the Polish telecommunications sector, held in Chicago on April 3. She met privately with TDA Director Grandmaison to review how best to improve

communications.

The recommendation to seek an MOU with TDA defining the services to be provided to TDA by US&FCS personnel overseas is a good one which the CS has attempted to pursue with TDA Director Grandmaison. To date, TDA has been unwilling to go beyond a letter redefining what TDA contractors are allowed to request of FCS officers overseas. CS headquarters will continue to engage in discussions with TDA over these resource issues on a worldwide basis.

**4. Reassess the resources level in Poland, in the context of other BEM posts, and determine whether additional resources may be needed to expand commercial coverage. Consider whether to hire a Personal Service Contractor for each of the three projected growth regions on an experimental basis to determine what the impact would be for U.S. firms.**

Because Poland is a BEM, it is a high-priority post for US&FCS headquarters in terms of resources. However, Poland's economy and commercial environment, unlike the Asian BEMS' to which it is compared in the report, cannot justify the same sustained increase in staffing.

The Commercial Service has recently approved the hiring of one additional American locally-engaged staff member to support the SCO and the other American officer. Since the IG team was in Warsaw, the newly-hired American commercial advisor has proved very effective in expediting market research and coordinating activities with the other CEE posts, tracking day-to-day ICASS developments, providing guidance to the FSNs in editing reports, and ensuring that deadlines are met.

As part of this review of resources in Poland, the SCO has proposed and received approval to place Polish PSC trade specialists in Poznan, Gdansk and Krakow to determine whether or not these additional resources would provide cost-effective benefits to U.S. business. These employees would undertake duties appropriate to PSCs, e.g., market research, business counseling, outreach and trade promotion facilitation. In addition, we will pursue assigning these new employees industry-sector responsibilities appropriate to their region in order to address the concerns the IG report raises about stretching the post's resources too thin.

Further, we have recently assumed financial responsibility for the very experienced CEEBIC PSC in Warsaw, whom the SCO has requested we convert to a full-time CS employee at the expiration of the CEEBIC program in October 1997.

**5. Arrange for training in order to improve the market research and business counseling skills of the trade specialists at the Poland US&FCS post.**

We strongly concur with the recommendation that CS Warsaw staff receive additional training, and to that end we included the newly-hired commercial specialist (medical, defense, media sectors, Gold Keys, market research) in the FSN business counseling and market-research course held in March 1997 in Washington, and will include a second commercial specialist

(environmental, transportation sectors) in the next FSN course, to be held in June 1997. We will continue to reserve space for CS Poland employees in future CS training programs, including administrative training in July. We are exploring the possibility of holding market-research seminars in Europe which would include a number of CS Poland staff.

**6. Assign a staff member to act as a liaison with USAID Poland in order to improve information sharing between the two operations. At a minimum, the SCO should request a list of all USAID projects and contractors from USAID Poland on a quarterly basis.**

We concur with the recommendation to assign a CS Warsaw liaison with USAID to strengthen information sharing. To that end, the SCO has assigned the deputy SCO to this important function. At the same time we would like to correct the impression the report leaves that CS staff have never worked with AID on specific issues. At the working level, CS staff have had frequent and fruitful contact with AID staff and contractors.

For example, CS and AID specialists for the energy sector have a very close working relationship and frequently share information about each other's activities. CS Warsaw is working to bring AID energy contractors into the AmCham energy committee, and AID is working with CS Warsaw on placing an advisor in Poland's Energy Regulatory Agency. CS officers have also worked closely to coordinate the activity of an AID-funded U.S. IRS advisor working in Poland's Tax Agency, who helped the Agency develop a better understanding of American companies' needs in Poland. CS Warsaw is currently working with AID to develop programs with the U.S. defense industry in Poland and to place financial advisors in the Ministry of Finance.

CS Warsaw met with AID representatives at the TAU Expo show in March to coordinate possible future AID projects in Poland and the region. In addition, the SCO also met with AID April 4 to discuss the possibility of developing a new program in which AID-funded PSCs would work with SCOs in the CEE region to follow local environmental leads and projects, to bring U.S. business into these projects, and to sponsor company-to-company environmental training.

**7. Ensure that the SCO provides her staff with specific standards used to determine the criteria for annual performance awards.**

The current SCO has very specific standards in mind, which she uses to evaluate recognition of performance beyond the basic work responsibilities. Since reviewing the report, the SCO plans, on her return from home leave, to meet with the staff and outline the standards she uses to determine the criteria for annual performance awards. It should be noted that since the visit of the IG team to CS Warsaw, two of the locally-engaged staff have received performance recognition at the recommendation of the SCO. The SCO will use these two awards as models when communicating to the staff the basis on which awards are to be presented in the future.

**8. Ensure that the SCO plays an active role on the ICASS Council, as well as fully explore other ways to reduce its costs and fund efficiencies.**

The IG report appears to confuse SCO participation in the ICASS Council and in the ICASS Working Group. CS Warsaw is an active participant in the ICASS initiative. The SCO has been and continues to be an active player in the ICASS Council. She has assigned an American PSC to represent CS on the ICASS Working Group. OIO has obtained confirmation from the State Department ICASS Service Center that the standard operating procedure expected from posts around the world is for the head of agency to serve on the Council and to delegate subordinate officers, PSCs or FSNs to the Working Group. Council meetings are to be relatively short, and to make key decisions. Working Group meetings are expected necessarily to require more time and to be staffed by employees at the working level. The situation referred to in the IG report reflected the early operation of the pilot Embassy Warsaw ICASS projects, where heads of agencies were wrestling with time-consuming issues that would normally be assigned to the Working Group. Since the visit of the IG team to Warsaw, the situation has greatly improved: Council meetings are better organized, shorter, and have agendas, and the SCO is playing an active role in all Council meetings.

**9. Determine who is using the commercial library and for what purposes. If the library is not used frequently or is used for reasons not consistent with US&FCS's mission, the SCO should close the facility. Determine whether opportunities exist to coordinate with or collocate materials with the USIS library or to reduce redundant materials, as appropriate.**

Since the visit of the IG team, CS Poland has begun tracking the usage of the commercial library. For example, in the month of February 1997, 200 Polish business visitors used the CS library. The SCO and the Ambassador have discussed the possibility of collocation with the USIS library, which is in the Embassy, and agreed that it is not a good idea, because the commercial specialists with the sectoral knowledge to counsel the visitors are located 20 minutes away. Through the balance of the fiscal year, CS Warsaw will monitor library usage, and the purposes that its clients plan to make of the information they receive. The SCO will develop procedures to guide the librarian on how library visitors' needs can be related to CS products and services and on how to make referrals to the appropriate industry specialists. A decision whether to maintain or close the library will be made after a complete review of its current use.

**10. Ensure that only commercial officers conduct all pending and future BXA end-use checks unless a waiver is received from BXA.**

For future BXA end-use checks, the SCO will seek a waiver from BXA to enable the American PSC to conduct these checks only if an American officer is not available to perform a check on a timely basis.

**11. Secure all fund monies in a locked box and store in a locked cabinet.**

Post has purchased a locked box and placed it in the secure file cabinet.

**12. Move personnel and any other sensitive files to a secure, locked container.**

Upon purchase of a secure file cabinet, post will move personnel files to that cabinet.

Attachment: USTDA activities supported by the Commercial Service in Warsaw, June 1995-May 1996 and June 1996-June 1997.