BUREAUCRATIC OBSTACLES FOR SMALL EXPORTERS: IS OUR NATIONAL EXPORT STRATEGY WORKING?

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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BUREAUCRATIC OBSTACLES FOR SMALL EXPORTERS: IS OUR NATIONAL EXPORT STRATEGY WORKING?

WEDNESDAY, JULY 27, 2011

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1 p.m., in Room 2360, Rayburn House Office Building. Hon. Sam Graves (chairman of the Committee) presiding.

Present: Representatives Graves, Bartlett, Hanna, Mulvaney, Tipton, Ellmers, Velázquez, Clarke, Chu, Cicilline, Richmond, Keating.

Chairman GRAVES. Good afternoon, everyone. I will call this meeting to order.

I want to thank our witnesses on both panels for being here today. Today we are going to hear testimony on the National Export Strategy and the administration's efforts to increase coordination among federal agencies, reduce domestic obstacles to trade, and expand exports for small businesses. We will also hear directly from some small firms on the barriers that limit their ability to export.

In March 2010, President Obama announced his National Export Initiative aimed at doubling exports by the end of 2014. There is strong bipartisan support on the benefits of exporting and it is a major contributor to the U.S. GDP totaling $1.8 trillion in 2010. It provides new sales opportunities for small businesses and most importantly, exporting creates and supports high paying U.S. jobs. However, of the 28 million small businesses in the U.S., only one percent currently export. There is a great untapped potential there.

One important way to get more small businesses to export is by passing the three pending free trade agreements with Colombia, Panama, and South Korea. The independent U.S. International Trade Commission estimates a passing of three trade agreements would increase U.S. exports by $13 billion. President Obama stated this will create over 250,000 jobs. Unfortunately, until the administration and Congress act on these agreements, American small businesses will be at a competitive disadvantage with foreign firms.

As we seek to open new foreign markets, we also need to reduce the domestic bureaucracy to make exporting much easier. The export process can be complicated and overwhelming, and many firms do not know where to start. It is just a simple fact. Small firms have a limited amount of time and resources to understand the complex federal and foreign regulations that are out there.

There are over 20 federal agencies that can assist businesses with some or all of the export process. Small firms have long voiced that navigating the agencies may be as difficult as navigating the export market itself and it is our Committee's job to take a look at these programs and ensure that small businesses can access the help they need to effectively compete in the global marketplace. With the unemployment rate staying above eight percent for 29 consecutive months, exports can be a catalyst to create new jobs and get our economy back on track.

I look forward to today's testimony and understand how we can work together to make it easier for small businesses to export. And now it is my pleasure to yield to Ranking Member Velázquez for her opening remarks.

Ms. VELÁZQUEZ. Thank you, Chairman Graves.

The resilience of American small businesses is unquestionable. In the face of an economic downturn they have adapted and come to utilize foreign trade as a tool for growth. Even as domestic sales lapsed, U.S. exports grew more than 17 percent and shrunk the trade deficit to levels not seen in over a decade. Since 2003, American small business exports have grown by about 80 percent. They now account for nearly half a trillion dollars in annual export sales.

Despite these figures, however, small exporters possess a significant source of untapped potential. While small businesses account for nearly 97 percent of all export firms, they are responsible for only 30 percent of all export revenues. Additionally, more than half of all small business exporters ship goods to just one foreign partner. If we are to achieve the goal set forth in the National Export Initiative of governing exports within the next five years and creating two million new jobs, it will be critical to increase both the number of small business exporters and the number of countries they ship to.

The 2011 National Export Strategy was promulgated for precisely this purpose. The NES sets forth a strategy to implement the NEI. In the context of small exporters this means improving coordination of trade promotion activities. It means increasing access to export credit for small firms. It also means updating antiquated regulations and reducing redundancies that discourage small firms from shipping abroad. While the issuance of the NES undoubtedly represents a step in the right direction, much more must be done.

We often hear from small businesses that red tape and convoluted agency processes prevent them from accessing the very programs that are meant to help them. Duplicative initiatives coupled with a lack of coordination between agencies can lead to conflicting messages about where to go for assistance. Breaking down these barriers should be a priority.

Additionally, more must be done to provide small businesses with improved access to capital. Many small firms have continued to find lending conditions extremely unfavorable. This is particularly true in the context of export loans where banks are wary of financing products that will be shipped overseas. Despite unprecedented efforts taken over the last three years to support and expand the SBA's credit programs, its internal trade loans have actually fallen by more than half over the past five years. They now provide $390 million less in loans to small exporters.

At the same time, small businesses have found credit difficult to come by on the programs operated by the Export-Import Bank. While small businesses receive more than 85 percent of all EX-IM bank loans, they receive only slightly more than 20 percent of the authorization dollars. With so many small firms continuing to struggle to find credit, it simply does not excuse why this agency should continue underperforming. Today almost nine out of 10 consumers live outside the United States. In order for small businesses to remain at the center of our recovery, they must be able to tap into those markets. If implemented correctly, the NES has the potential to advance that goal, making our small businesses more dynamic, competitive, and robust, while allowing them to focus on what they do best, creating new jobs.

With that I take this opportunity to thank all the witnesses for coming and spending some time with us today. I would like to thank the chairman for yielding and I yield back.

Chairman GRAVES. Thank you, ranking member.

If any other Committee members have an opening statement prepared, I would ask that they submit it for the record.

And just to explain the testimony process, each witness has five minutes. The light will stay green in front of you until you have one minute left. Then it turns yellow and then red after five minutes. I would ask that you please try to keep on the time limit.

STATEMENTS OF SURESH KUMAR, ASSISTANT SECRETARY AND DIRECTOR GENERAL, U.S. COMMERCIAL SERVICE, U.S. DEPARTMENT OF COMMERCE; MARIE JOHNS, DEPUTY ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION; CHRISTIAN FOSTER, DEPUTY ADMINISTRATOR, OFFICE OF TRADE PROGRAMS, FOREIGN AGRICULTURE SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Chairman GRAVES. Our first witness is Suresh Kumar. He is the assistant—did I get it right? He is assistant secretary and director general of the U.S. Commercial Service with the U.S. Department of Commerce. He has an Economics degree from Delhi University and an MBA from Bombay University. Thank you for being here. I appreciate you coming in and you have five minutes.

STATEMENT OF SURESH KUMAR

Mr. KUMAR. Chairman Graves, Ranking Member Velázquez, and distinguished members of the Committee. Thank you for the opportunity to appear before you today.

Priority number one of the National Export Strategy is to develop programs designed to enhance export assistance to small and medium enterprises. This is consistent with the statutory mandate of the U.S. and Foreign Commercial Service to assist SMEs to grow exports. It is essential to both the national economic recovery and global competitiveness that small businesses participate more effectively in export markets. Our clients consistently tell us what they need most is assistance to better understand complex documentation requirements, helping and identifying the right international partners and distributors—what we call matchmaking and our clients often term as entering a market but ensuring that they get paid.

Our small business clients particularly value in connecting to federal and state government programs. This is exactly what the Commercial Services does. We serve as a one-stop shop, a single point of contact and a clearinghouse for small businesses. We are the surrogate export department for small businesses. Background Dynamics, a $5 million, 20 percent operation which I visited on Monday, is a small business which epitomizes what we do for them and the services they need from us. They design and manufacture linear actuators, multi-axis automation, and mechanical motion systems for multiple industries ranging from defense to entertainment to health care amongst others.

Our trade specialists help connect them to a support network to realize export success. By connecting to the Delaware Valley Industrial Resource Center, a part of the Manufacturing Extension Partnership Program, they received valuable manufacturing-related guidance. Contact with the Pennsylvania Department of Trade allowed Macron to access a $3,000 grant that permitted them to participate in a commercial service trade mission to Mexico, where through our matchmaking services they identified two potential distributors that provided them a beachhead in Latin America. Macron is currently working with the Commercial Service in exploring new opportunities in Asia and Latin America.

The global network of the U.S. and Foreign Commercial Service spans approximately 1,450 trade specialists across 108 domestic U.S. export assistance centers and 126 offices in 79 countries. Our trade specialists are the boots on the ground in local communities across the country and in global markets across the world that connect businesses to market opportunities.

Our programs connect SME exporters to international partners, distributors, and buyers. Our counseling and facilitation services help businesses across state and federal government resources to secure expertise, grants, and even financing. The U.S. Commercial Service works closely with state governments, trade associations, cities' local chambers of commerce, and institutions like the State International Development Organization to engage small businesses in our programs. Last year, the Commercial Service assisted 18,000 companies to export, 16,000 of which were SMEs, and we facilitated 12,300 export successes and helped 4,630 companies export to new markets. For every one dollar invested in the U.S. Commercial Service, we returned $135 to the American taxpayer by way of facilitated exports.

Through the Trade Promotion Coordinating Committee (TPCC), the Commercial Service promotes joint collaboration amongst the 20 federal agencies involved in trade promotion. We helped design a single uniform method for referring new clients to the most appropriate service provider. Our enhanced client intake registration form on export.gov, the Federal government's export assistance web portal more accurately identifies and directs companies to the most appropriate federal agency.

The National Export Initiative, which President Obama announced in March 2010, is off to a good start. Exports comprised 12.5 percent of U.S. GDP last year, up from 11.2 percent in 2009.

The $1.84 trillion in exports of U.S. goods and services is the second highest annual total on record. We remain on pace in 2011 to achieve the NEI goals.

Besides looking into the rearview mirror it is important to prospectively look forward to the future. This is why the pending trade agreements with Korea, Colombia, and Panama are a priority for the Obama administration. With the Korea Trade Agreement alone, U.S. exports could increase by more than $10 billion and could support more than 70,000 American jobs. The agreement would eliminate tariff on over 95 percent of industrial and consumer goods within five years, making small and big businesses globally competitive.

A recent study by the U.S. International Trade Commission reported that tariff and non-tariff barriers disproportionately affect a small business's ability to export. FDAs are particularly important to small businesses to ensure low tariff, remove complex trade barriers, and secure access through a streamlined trade process. Small businesses do not need to navigate global markets alone. They have the full support of the U.S. government to connect to profitable opportunities worldwide. The U.S. and FCS of the Commercial Service Trade Specialists stand ready, willing, and able to connect small U.S. businesses to the 95 percent of consumers who live outside our country.

I thank you again for the opportunity to appear before you today and I look forward to answering your questions. Thank you.

Chairman GRAVES. Thank you. Our next witness is Marie Johns, the Deputy Administrator for the Small Business Administration. In her role she oversees the Office of International Trade, including the administration of the State Trade Export Promotion grants. She earned her Bachelor's and Master's degree from Indiana University School of Public and Environmental Affairs. Thank you for coming and welcome.

STATEMENT OF MARIE JOHNS

Ms. JOHNS. Thank you, Chairman Graves. Thank you, Ranking Member Velázquez, and members of the Committee. I am honored to be here this afternoon to testify.

In his first State of the Union Address, President Obama announced the National Export Initiative and his goal of doubling U.S. exports in five years. This is an important goal. Increasing exports will strengthen our economy, bolster our global competitiveness, and create good jobs. As the agency that serves America's small businesses, the SBA has an important role to play. Administrator Mills chairs a small business working group of the Trade Promotion Coordinating Committee or the TPCC, which is the main federal body working to encourage more U.S. businesses to export. Meanwhile, the SBA is working with our partners across the Federal government to support small businesses.

Small businesses are well poised for growth through exports. Since 2003, revenues from America's small business exports have increased as ranking member said about 80 percent. They now account for nearly $500 billion in annual sales. However, small businesses, as the ranking member also mentioned, only represent about 30 percent of export revenues and more than half of small businesses who do export are only shipping to one country.

The SBA, along with our partners and the TPCC, is working to increase both the number of small companies who are exporting and the number of countries to which they ship. Our plan, which has been incorporated into the 2011 National Export Strategy, has four components. First, we identify small businesses that are ready to export. Second, we prepare those small businesses with counseling and technical assistance. Third, we connect those small businesses with export opportunities. And fourth, we support those small businesses with loans and counseling.

The SBA and our partner agencies have done extensive outreach to identify and motivate small business exporters. For example, the Department of Commerce and the SBA have worked closely together to identify and refer new clients to the most appropriate resource. To better prepare small businesses for successful exporting, federal agencies have collaborated to train the trainers, offering export training for SBA resource partners such as counselors at our Small Business Development Centers, our Women's Business Centers, and SCORE. Meanwhile, the NEI is working to connect small businesses with export opportunities. In September of 2010, we launched a series of export matchmaking events, the first of which was in New Jersey, and it drew participation from approximately 150 small businesses, lenders, and others.

Lastly, the SBA and other agencies, excuse me, continue to support small businesses once they have begun exporting. This includes an increased presence at international trade shows, coordination of marketing materials, and ongoing outreach to lenders to encourage their participation in export financing programs.

Thanks to increased guarantee percentages, increased loan limits, and an improving economy, SBA export loan programs have seen a major uptick over last year's levels. These loans are helping small businesses across the country expand their export capabilities. For example, in Missouri, Environmental Dynamics, Inc., took advantage of an export working capital loan once the limit was raised to $5 million. The increased loan size made the program much more appealing to the company, and the firm which has sold internationally for 20 years, is using the loan to finance an expansion. Meanwhile, in New York, Turbofil Packaging Machines used an export working capital loan to help the company complete a large overseas contract.

The success of the NEI depends on the work of more than a dozen agencies across the Federal government. Each agency has staff dedicated to working on NEI initiatives who meet and communicate regularly with their colleagues throughout the administration. We have worked to reduce bureaucratic barriers and make our efforts as crosscutting as possible. Overall, our goal is to ensure that we are connecting federal resources at every point and making them work for small businesses.

Thank you, Mr. Chairman, ranking member, and members, and I look forward to answering your questions.

Chairman GRAVES. Thank you.

Our final witness on this panel is Christian Foster. He is the deputy administrator for the Office of Trade Programs in the Foreign Agriculture Service within the U.S. Department of Agriculture. He earned a Master's of Arts from Georgetown University in 1982 and a Bachelor of Science in Foreign Service from Georgetown in 1980, I believe. Welcome. And I appreciate you being here.

STATEMENT OF CHRISTIAN FOSTER

Mr. FOSTER. Mr. Chairman, members of the Committee, I am pleased to be here with you today.

In his 2010 State of the Union address, President Obama told the nation we are launching a National Export Initiative that will help farmers and small business increase their exports. USDA has taken the President's charge to heart. The efforts of USDA personnel throughout the country and around the globe, bolstered by public-private partnerships, have assisted farmers, ranchers, and all agricultural exporters in achieving record export sales. In Fiscal Year 2011, we expect U.S. agricultural exports to reach their highest level in history, reaching $137 billion.

For more than 50 years, the Foreign Agricultural Service has led USDA's efforts to build overseas markets. We know that every $1 billion in agricultural exports supports 8,400 jobs and generates an additional $1.3 billion in economic activity. At USDA, the commitment to NEI starts at the top. I am pleased to say that next week Secretary Vilsack will be hosting the administration's NEI Small Business tour event in Milwaukee, Wisconsin. The event is designed to connect small businesses with the resources they need to export. We will be collaborating with the Department of Commerce, the Small Business Administration, and the Export-Import Bank.

I would like to now highlight a few of USDA's actions in NEI priority areas. Last year, more than 625 new small businesses benefited from the USDA administered Market Access Program to promote their products overseas, resulting in over 975 first-time sales. For example, a company, WildRoots, a healthy snack food company with production facilities in Illinois and Nebraska, matched MAP funds to market their products in Canada. Export sales from this company soared from zero in 2008 to $4 million last year. The company buys blueberries from Michigan, corn and soy products from Illinois, cranberry from Massachusetts, and almonds from California.

Another example of our export assistance to small businesses is how we link them to foreign buyers at USDA hosted and supported trade shows. Last year, USDA supported U.S. pavilions at 27 international trade shows in 19 countries. Nearly 1,000 exhibitors reported $179 million in onsite sales and over $1 billion in estimated 12-month sales. Participating U.S. companies introduced over 6,000 new-to-market products.

USDA-led trade missions link our producers to foreign buyers. A trade mission in January to Peru included 16 small businesses. Three hundred thirty eight one-on-one meetings were held with over 100 Peruvian and 10 Ecuadorian companies. To date, USDA has recorded $1.9 million in sales resulting from that mission. In addition, USDA supports reverse trade missions that bring foreign buyers to the United States to meet with potential suppliers of agricultural products. Such missions are particularly valuable for small businesses that may not have the resources to travel abroad.

Tariff and non-tariff barriers remain challenges for U.S. agricultural exports. Securing congressional approval of the pending trade agreements with South Korea, Colombia, and Panama would significantly reduce tariff barriers to U.S. farm exports. USDA is also stepping up efforts to address sanitary and phytosanitary barriers to farm exports.

In 2010, the USDA administered U.S. Technical Assistance to Specialty Crops Program assisted U.S. potato exporters in overcoming a Thai phytosanitary protocol that prevented U.S. exports. The U.S. Potato Board used program funds for Thai officials to visit and review U.S. seed certification procedures and pest mitigation measures. Thailand agreed to additional market access that more than doubles the number of states that are eligible to export seed potatoes to Thailand.

I am pleased to report that USDA is making progress in the Administration's goals under the NEI. As our Secretary said, increased exports mean higher incomes for producers, more opportunities for small business owners, and for folks who package, ship, and market agricultural products. They mean a thriving rural America which is good for our Nation as a whole.

This concludes my statement. Thank you very much. And I am happy to answer any questions.

Chairman GRAVES. We will move into questions and our first questions are going to come from Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman.

Very briefly, Ms. Johns, Mr. Kumar, I was listening to your summary of what your agencies do and it sounded to me like there might be some overlap between those two things. Ms. Johns, tell me what your agency does that Mr. Kumar's does not.

Ms. JOHNS. Congressman, we—our agency, as you know, we are the voice of small businesses in the administration among federal agencies. And so our entire focus is on small companies.

Mr. MULVANEY. I understand. But in terms of helping them with exports, what do you do that is unique from what Mr. Kumar's organization does?

Ms. JOHNS. We do a number of things. But I certainly want to emphasize that we work closely with the Department of Commerce under the Trade Promotion Coordinating Council. Our administrator sits on the president's Economic Council. So we are involved in the crosscutting federal efforts to coordinate federal resources to support exporting.

What we do specifically. We have capital programs. We have counseling programs. And those areas of our agency's programmatic thrusts are the primary ways that we support small businesses.

For example, we are working, as I mentioned in my opening statement, on training more international trade counselors so that we have a network across the country available to small businesses. Any small business in our country is less than an hour's drive away from an SBA resource where they can get counseling for exporting. We have specific loan products that are available for them.

Mr. MULVANEY. Let me stop you there because the loan program was one thing I did hear that was different from what Mr. Kumar does. But what you just described is training counselors to help folks sort of get through the process of exporting, which is exactly what I heard from him.

So Mr. Kumar, tell me what am I missing here? What is the—help me understand how the SBA's efforts to promote small business exports and the Department of Commerce's efforts to do the same—how they are complementary and not duplicative.

Mr. KUMAR. Thank you very much for that observation.

Trade, any trade, until it is consummated, is touched by a number of agencies. And indeed there are several things before you can consummate a trade. From identifying a customer to defining the access for finance, to getting the right distributor, it is an entire chain. And how the two of us or the two agencies get contrasted is this.

First, physical availability of finance is handled by them but connecting customers who invariably, because we work in the communities—I mentioned the 109 offices we have across the United States. And we physically work with the businesses to connect them to the right resource.

Second, we ensure this time through the National Export Strategy and National Export Initiative that how do we leverage the combined resources for maximum benefit? In fact, it was something the president challenged us through the NEI. And what we did as a consequence is we realized that dealing with new-to-export companies, people who want to export for the first time, people who needed to go through an education, information, and skills training program, were perhaps best leveraged through the SBA. On the other hand, dealing with the 280,000 current exporters and one of the members, representatives mentioned that 58 percent of them only go to one market, we chose to concentrate on exporters currently going to some to take them to newer markets.

So here was a classic example of looking at the entire supply chain, concentrating the efforts of one agency towards new exporters and concentrating the efforts and the abilities and the boots on the ground as we call it towards current exporters to take them to newer markets.

Mr. MULVANEY. Mr. Kumar, let me cut you off there, Mr. Kumar. I am sorry. I only have a few minutes. Because I am going to follow up on that point and ask Mr. Foster a question aside from congratulating him on where he went to school.

If I am a farmer who is new to exporting, I want to get in the export business, do I go see you, Ms. Johns, or Mr. Kumar?

Mr. FOSTER. Indeed, in the U.S. government there are vast resources available across all agencies. If you are a farmer you have a number of options to get support. You can go to the U.S. government portal, export.gov, which will direct you to the U.S. Department of Agriculture. You can go to your Department of Agriculture for the state, which will link you to our regional service provider that will help any small business in that region. You can come to FAS directly, again, via the internet. And then I should say we are working now with our local farm service agency offices and rural development offices across the country so that they know if any farmer were to walk in, any small business from a rural area were to walk in, they would know where to go in the Department of Agriculture.

Mr. MULVANEY. Thank you. I yield back my time. Thank you, folks.

Chairman GRAVES. Ranking Member Velázquez.

Ms. VELÁZQUEZ. Thank you.

Ms. Johns, you do business planning, right, for small business exporters?

Ms. JOHNS. Yes, we assist them with business plans.

Ms. VELÁZQUEZ. And access to capital?

Ms. JOHNS. Yes.

Ms. VELÁZQUEZ. And Commerce does not. Right?

Ms. JOHNS. We provide—I think that my colleague said it well. When we talk about exporting and small businesses, the clear issue that we, I think, all agree on is that there is tremendous upside potential to involve more small businesses in exporting in order to grow and create jobs in the country. So what the SBA does is to use its network and its longstanding experience in preparing more small businesses to be able to do just that.

Ms. VELÁZQUEZ. Okay. It has been almost a year since the state Trade Export Promotion Program was enacted under the Jobs Act. And the agency has yet to award a single dollar under the program. With three out of every five states' Export Promotion Projects being caught, this money, as you know, has netted more than ever before. So what can you tell us and the states that they can expect—when will they be able to expect these funds?

Ms. JOHNS. Yes, ranking member. We have gone through a process, a very rigorous process, for managing this new grant program. First of all——

Ms. VELÁZQUEZ. Thirty million, right?

Ms. JOHNS. Thirty million per year.

Ms. VELÁZQUEZ. Per year.

Ms. JOHNS. And it is a—we were authorized for three years but we have money appropriated for two. Every state that applied for the funds will receive funding. That is the first thing.

Ms. VELÁZQUEZ. Just answer my question. When do we expect for these funds to get into disbursed?

Ms. JOHNS. My best estimate of that is early to mid-September.

Ms. VELÁZQUEZ. Okay. And under the STEP Program, grant recipients will have one calendar year to fulfill the requirements of the program. Will this year begin on the date states are notified of successful applications or from the date they actually receive the grant?

Ms. JOHNS. That is a detail that I do not know. I will certainly get back to you on that.

Ms. VELÁZQUEZ. I would like to know that.

Ms. JOHNS. I will let you know.

Ms. VELÁZQUEZ. While USDA and the Department of Commerce know the number of new-to-export firms they are providing assistance and which new markets the programs are helping to open, SBA has yet to begin tracking those numbers. And as you know, as part of the national strategy for small business exports, tracking numbers are going to be very important to measure success. So when are you going to start putting together the framework to collect those numbers?

Ms. JOHNS. We have a requirement to report on the state activity with exporting and we are in the process of pulling that framework together now. I wrote to the committee saying that we needed additional time from the timeframe that was specified in the Small Business Jobs Act, so we appreciate your flexibility there and we are working hard to get that document to you.

Ms. VELÁZQUEZ. Mr. Kumar, of all the services provided by the Department of Commerce, the Gold Key Matchmaking Services is perhaps the best in terms of linking small businesses here in the U.S. with foreign buyers abroad. But what we continue to hear from small business exporters is that the cost is prohibitive. What can you tell us your agency will do to make this program more affordable so that small business orders can benefit?

Mr. KUMAR. Thank you, Ranking Member Velázquez.

The Gold Key indeed is one of our more popular services. And what it does is physically matches——

Ms. VELÁZQUEZ. Answer my question, please. I know what it does. What I am asking you is what will you do, the agency, to make this program accessible for small business exporters?

Mr. KUMAR. It is currently accessible to any business which wants to do it. The cost for that program is $700. The value through research that we find is perhaps more than 10 times what we charge for it. And it is already discounted for small and medium enterprises. We happen to believe it is a fair charge. And in discussions with several small and medium enterprises who not only use our services and those who counsel, the cost of a Gold Key has never come as a challenge to SMEs.

Ms. VELÁZQUEZ. Well, that is not what we hear from small businesses. We are going to have a second panel here and I will invite you to stay so that you can listen to what they have to say.

Mr. KUMAR. Thank you.

Ms. VELÁZQUEZ. That cost will go up. Do you foresee?

Mr. KUMAR. We have an obligation to Congress to assess the value of the services we provide. And measure the costing and adjust the pricing once every two years. That is the reason why I could give you the 10 time multiple. We are just in the process of going through the findings of that. I cannot comment whether it will go up or stay where it is but it appears that the value provided by the service and what is likely to be provided by any external vendor is about 10 times more than what we can get.

Ms. VELÁZQUEZ. Mr. Foster, a significant portion of the National Export Strategy seems primus on the passage of not just the Korea, Panama, Colombia Free Trade Agreements but also the ratification of a Trans-Pacific Partnership and completion of the Doha agreement. Can the Export Strategy succeed if these agreements are not completed?

Mr. FOSTER. We continue to work as part of the Administration and remain committed to securing Congress's approval of the pending trade agreements that you mentioned. We are committed to seeing those through. The Trans-Pacific Partnership is another agreement we continue to work on. We at USDA, with USTR that has the lead on this, we remain committed and will continue to work on that.

Ms. VELÁZQUEZ. But do you think that if we do not get those agreements passed and ratified that the Export Strategy will be in jeopardy in terms of the success?

Mr. FOSTER. As the Administration says, the agreements, we believe, have tremendous benefits for American exporters and jobs and producers' incomes. So we believe they will have tremendous benefits.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Chairman GRAVES. Ms. Ellmers.

Ms. ELLMERS. Thank you, Mr. Chairman. My question is basically for each one of you, and thank you for being here today to give your testimony.

As we know right now, small businesses are facing many obstacles domestically, including higher gas prices, increased government regulations, and always the looming possibility of tax increases. Can you explain how this impacts small businesses and their supply chain and your ability to help them export? And I will start, Mr. Foster, with you. And then if we could just move down the panel. Thank you.

Mr. FOSTER. Our goal at FAS for the last 50 years is promoting agricultural exports. We believe we do that well and investment there is a wise decision. We are trying in every manner possible across government and within the multiple agencies in the Department of Agriculture to make sure small businesses get the support they need. We certainly understand that transportation infrastructure at ports and the like are incredibly important to moving exports, agricultural exports out of the country. We work through the NEI, on that topic. That is one of the primary recommendations of NEI looking at infrastructure. I believe we would all agree we will continue to focus on that. For agriculture that is vital. As we know for Louisiana, Congressman Richmond here, the Port of Louisiana is one extremely important example of getting agricultural exports out of the United States. Forty-seven percent of grain transports out of that region, a tremendously large amount.

Ms. JOHNS. Thank you for your question, Congresswoman.

At the SBA we are—our mission is to support our small businesses. And we are coming out of the worst economic downturn since the Great Depression. Small businesses were hit inordinately hard but they are bouncing back faster actually than some other sectors of the economy. The reason that this National Export Initiative and the work that we are doing at the agency in conjunction with our federal partners at the TPCC is that as has been stated earlier, 95 percent of market demand exists outside of our country. The USA—Made in the USA brand is still a very, very strong, very valued brand. And so the extent—to the extent that we can get more of our small businesses ready for exporting, that is a huge win for the economy overall.

As I mentioned in my testimony, we have a four-prong approach that first we identify those companies that have not yet exported but are right there and with some support can move into that category. Once we identify those companies, then we prepare them with the counseling through our national network of resource partners and the counseling that we provide through our 68 field offices. We have a robust and a very integrated network to provide the counseling for them. We have more international trade counselors available thanks to the Jobs Act, et cetera. Then we connect those small companies, excuse me, with opportunities working closely with the Department of Commerce and other federal partners in that role and then once the business opportunity happens we support those small businesses with what they need in order to be successful. So this effort is incredibly important to small businesses and to our economy as a whole because small businesses are the creators of jobs in our country. They really are our economic engine.

Ms. ELLMERS. Amen. I believe that, too.

Mr. Kumar.

Mr. KUMAR. Thank you very much, Congresswoman.

In the face of increased costs which everyone is going through the question really was how can we most effectively help small and medium enterprises engage in global markets. That is what we do through our business counseling sessions. And also through helping people develop business plans and marketing plans. But it does not stop there. Ours is a turnkey plan which we work with. And what we do is then connect the players to the most cost effective logistics provider. Logistics is a major part of the exercise. Then look at the best distributors through matchmaking services in external countries where they export to.

In addition to that, we engage people through trade missions, which is an easier better way by scale to come to meet buyers. Additionally, we have increased the concentration we place and focus we place on international buying programs where we get buyers from foreign countries coming to shows here. So that also reduces the cost burden on an SME.

And finally, even using technology. We now have, even wine tasting or export of wines from California. We have had virtual wine tasting missions put together where simultaneously when you are here on your Internet or website or through web access you are dealing with buyers in China or wherever they are who are tasting the same wine, educated on what the wine is about, and have all the product benefits and features which they can base it on.

So we are interceded by looking at the elements of cost and trying to provide the value to small and medium enterprises in the most cost effective manner because we believe the price is right only when those who must buy, buy, and those who sell make a profit.

Ms. ELLMERS. Thank you so much. And I yield back. Actually, I think I went over a little bit. Thank you.

Chairman GRAVES. Ms. Clarke.

Ms. CLARKE. Thank you very much, Mr. Chairman. And thank you, Ranking Member Velázquez. I would like to thank our panelists for their expertise and their testimony today.

While I am a bit skeptical about the pending FDAs, I recognize that we are in a global economy where trade plays an important crucial role towards our domestic economic success. So to that end I would like to ask each of you if you could elaborate a bit more about the internal framework within your various entities regarding programs or initiatives that you have unveiled or plan to unveil in support of the NEI.

Ms. JOHNS. I will begin, if I may.

Ms. CLARKE. Yes, please.

Ms. JOHNS. You are asking about actual programs that we have launched in support of the NEI. Yes, thank you, Congresswoman Clarke.

We have done a number of things. First of all, by our very—the very role that the agency plays as part of the president's Export Council where Karen Mills is a member, I work with the Trade Promotion Coordinating Council where Karen chairs the Small Business Working Group. That is the institutional way through the TPCC and the PEC where the SBA is involved. And the benefit of the TPCC is that it has allowed us to work in a much more collaborative fashion with our federal partners.

And we have talked a bit in this hearing about the different pieces and different players who are involved in this process. It is complicated. It is certainly doable but it is complicated to ensure that we are providing all the resources that businesses need across the board to be able to export. And so what we are doing with the Small Business Working Group under the TPCC is that various working groups have been created. A working group focused on preparing—identifying small businesses. A working group focused on preparing, connecting, and supporting. Each of the four elements of the plan have a working group assigned to them and we have specific programs under each of those working groups that we have launched.

For example, the Connecting Working Group is focused on matchmaking events. I mentioned in my testimony the first one in New Jersey. We intend to have more of those around the country because we found them to be very successful in bringing the players, the right players together to make business happen. Under the Preparing Work Group we have launched our Train the Trainers Initiative where we are working with the Association of Small Business Development Centers and training individuals who work in the SBDCs as well as our Women's Business Centers and our other resource partners. And we have created within each of our district offices, each of our 68 district offices, a district international trade officer so that any small business in the country will be in a very short distance able to reach someone who can provide expertise in those areas. Those are some of the initiatives.

Ms. CLARKE. Let me ask. Do you have sort of a, I guess, a formula for what you think participation of—given the number of businesses that exist in the small business, medium-size business sphere of our economy, what percentage of those businesses should be eligible to participate in these programs? And based on that, are you I guess targeting resources because when you think about it, you know, it—I think part of the pushback is not understanding how these businesses actually plug into a system of global economic—with global economic implications. And so no one quite understands what it means for the average small business in terms of its growth and its development.

And for those who do venture into that area it is so very complicated for them to break through that they kind of discourage others because it is such a daunting endeavor. Do you get where I am?

Ms. JOHNS. If I may respond, yes, Congresswoman. That is exactly why I have been—to your point, that is exactly why I have been focusing on the counseling and the nationwide network of counselors that the SBA is putting in place. Because that can address—it can take away the mystique. It can take away the complexity for that small business who needs that support. You are talking a large business. They have their own in-house resources for how to navigate this global marketplace but we are that—we stand in that gap for small businesses.

And I will give you an example. I was in Indianapolis, Indiana not long ago at one of our Women's Business Centers, talking to a group of women, one of whom I will highlight. She is a jewelry maker. Because of the resources that she found at the Women's Business Center and was exposed to the idea of exporting, she is now able to take her jewelry making business and she, through the web, has launched in two countries. She is in Great Britain and she is in France. And she intends to grow from there.

And I just use that as an example to say that with the benefits of technology that we have at our disposal now and I believe a strong role that we must play at the SBA is to build awareness to again demystify the notion of exporting, connect small businesses with the expert advice that they need and the other support, and we will see a breakthrough. It is our responsibility to develop metrics to track that. We are in the process of thinking through how we need to do that but the main point is getting these tools from the Small Business Jobs Act into the hands of small businesses, doing our part to develop the network of support that the small businesses need, and then building awareness. Because that is a big problem. Too many of our small businesses just have not thought about exporting. And when the issue is raised and when we talk about the tools that are there at the SBA and across the Federal government, a very strong positive reaction always results.

Ms. CLARKE. Thank you very much, Mr. Chairman. I yield back.

Chairman GRAVES. Mr. Tipton.

Mr. TIPTON. Thank you, Mr. Chairman. Panel, I would like to thank you for taking the time to be here.

I am a small business guy myself and certainly I recognize your appreciation that small business is the number one job creator in this country and probably one of the keys to being able to lead us out of this recession.

If I could, Ms. Johns, you stated in your opening statement and I heard this, that the administration wanted to be able to double exports in the last five years—over the next five years. How is that going?

Ms. JOHNS. Well, we are certainly working as hard as we can to——

Mr. TIPTON. Where do we sit now?

Ms. JOHNS [continuing]. To do our part but I would defer to my colleague on the actual data there.

Mr. KUMAR. Last year exports grew at 17 percent over a year ago. A doubling of export is a 15 percent compounded annual growth rate year over year. This year in the first seven months exports are tracking at 17 percent. Given the fact that over 19 months we are tracking at 17 percent, that is about our goal but that is why we always like to call it a beginning. Whether you look at macro level or micro level, the trend is quite heartening. Besides the 17 percent, exports were at 1.83 trillion last year, the second highest. And exports as a percent of GDP went up from 11.2 to 12.5. That is at the macro level.

At the micro level we physically were able to touch 18,000 SMEs. No, 18,000 companies, of them 16,000 SMEs. And we were able to post significant increases in export success. Again, our approach was to divide and conquer to leverage our combined resources. The USFCS focused on taking newer companies—existing exporters to newer markets. We succeeded in 4,700 such cases; 12,300 export successes.

So whichever form we look at it, whether we look at it in physically facilitated exports and what it had been over a year ago or at the macro level, we are tracking well onto our goal.

Mr. TIPTON. Good. You know, I guess I am curious because part of the problem is when we are dealing with small businesses, as you note, you do not have some of the sophistication in the marketplace. Are all of the forms, all of the applications, are those available and deliverable online?

Mr. KUMAR. Export.gov is the single web portal which we would like every business to be directed to. And what we have done on that portal and continue to improve the portal is have the Trade Information Center intercede so that any inquiry from any one of your constituent companies is directed to the right agency.

Mr. TIPTON. I understand the direction but I mean in terms of filling out forms, are those available online?

Mr. KUMAR. Yes, it is.

Mr. TIPTON. All forms are available?

Mr. KUMAR. Not all. Most forms, through the Client Intake System. The right forms——

Mr. TIPTON. Are you working to get them all online?

Mr. KUMAR. Yes, sir.

Mr. TIPTON. You are. What is your time of completion on that?

Mr. KUMAR. Export.gov is an interagency staff. Most of the forms which small business entities require are already online. And I cannot give you a finite time but it should not be more than six months or so when every form would be there.

Mr. TIPTON. Okay. Great. And I may be following up a little bit on Congresswoman Velázquez's question there. If I was interpreting it correct. But the return on investment that we were having for the cost of what you do versus the yield from a benchmark, do you have any idea what that is?

Mr. KUMAR. I do not have the benchmark idea but what we do is track the value of exports. Export successes.

Mr. TIPTON. On a year over year basis what would you say given some of the statistics that you just gave me earlier?

Mr. KUMAR. It is tracking upwards. I did mention in my testimony that the return on investment to date states that every dollar invested in the service is coming out at 1.35. And I do know it is significantly higher than what it was in the previous year.

Mr. TIPTON. Okay. I think there will be probably something because, you know, as Congressman Mulvaney was pointing out, it sounds like we do have some duplication going on. And I think it is probably in all of our interests right now to see where we can merge those components to be able to work the most efficiently, to be able to achieve that common goal of being able to export more at the most efficient cost that we can certainly have.

Thank you, Mr. Chairman. And I yield back.

Chairman GRAVES. Thank you. Our next questions come from Mr. Richmond. I might remind Mr. Richmond that that last pitch was not a strike; it was a ball. And I should limit your time and I am too nice a guy.

Mr. RICHMOND. Mr. Chairman, I certainly appreciate that. And, you know, sometimes you get lucky and you just have to accept luck. So I just accept the luck from the baseball game and hope that I can repeat it next year. But you never know.

Chairman GRAVES. Well, just remember when the chairman is up to bat and you are pitching.

Mr. RICHMOND. I will tell you I was surprised and disappointed that the umpire called that a strike. I just did not want to overrule the umpire but certainly he was wrong for calling it a strike. I thought it was a ball all the way.

First I will start with Mr. Kumar. First let me thank you because I had the opportunity to see and participate in a New Markets, New Jobs NEI Small Business National Tour, one of which was in New Orleans at Tulane University. And the feedback that I received from many constituents and small businesses in New Orleans was incredible in terms of the education and the information that was provided there. My question to start off with is for Mr. Foster and Mr. Kumar. How much do you all talk to other agencies? Because Mr. Foster, you correctly pointed out Louisiana and the Port of New Orleans, Port of South Louisiana, our role in exporting in the country. However, I do not know if the Corps of Engineers understands that if they are not dredging the Mississippi River, which is our superhighway for trade, you have now put road bumps in the middle of our highway. So the more you can talk to other agencies to let them know the importance of that it would certainly be helpful.

Now my question to you, you talked a little bit about hosting a reverse trade mission. And I guess I wanted to hear a little bit more about how you do it and how you identified businesses outside of the country to come to it. And do you have that in such a model that cities can duplicate it if they have the resources to do it? We are a port city and we export a lot of things and we have the ability to do more. That would be something I am interested in if you all could give us a roadmap on how to do it.

Mr. FOSTER. Thank you. I will answer that first. Thank you very much, Congressman.

And again, yes, we at USDA are very familiar with your district and your state. I was mentioning earlier corn, wheat, and soybeans are going out through your ports at about $49 billion a year, so that means a lot to us.

We at USDA have four regional trade associations, non-profits that help small businesses exclusively in those regions. In fact, our

Southern United States Trade Association, which covers the whole south, is based in New Orleans. They work every day with new small and medium-size companies to help enter world markets. I have a note here that a company called Magic Seasonings, not far from New Orleans, is involved in our program and is now exporting to several countries after attending a number of trade shows that we helped fund them to go to. Another company, Crown Products, that produces sunflower seeds and popcorn and so forth in Louisiana, are working with us and going to trade shows. They are now selling to the Dominican Republic at the tune of $200,000.

The Southern United States Trade Association (SUSTA) that we fund brings reverse trade missions regularly to Louisiana. We want to make sure they do this through all our partners there. We can do even more to make sure that they are reaching out to every small business in your state and any of the states—to make sure that they are meeting the buyers that our posts are bringing to the United States. We have 100 offices around the world covering 150 countries. They regularly bring buyer missions to the United States. Again, that is because small businesses cannot afford to get all over the world to meet the buyers. But I will say the SUSTA trade organization I mention has funds to supplement any company in your district, for instance, that wants to attend an international trade show to enter world markets. They get funding up to 50 percent of the cost to travel. And I must say USDA does not charge any services, any fees. I am sorry, charge any fees for our services.

Mr. RICHMOND. Okay. Ms. Johns, I have a two-part question. When we talk about the STEP Program I guess the question becomes was there large participation from the states? And do you all anticipate allocating or leveraging all of the funds allocated for the program?

Ms. JOHNS. Thank you, Congressman. Yes, there was a very good response to the STEP grant program. Fifty-three states and territories responded and as I mentioned earlier, each one of the entities who sent in an application will receive funding. We are in the process now of working with the states to ask them to—it is a comparative process. We are asking them to resize their application because we were oversubscribed. The applications that we received were over $42 million for a $30 million program. But that process is underway and as I said to the ranking member, we will have those dollars out the door within the next few weeks.

And I am sorry. The second part of your question was regarding——

Mr. RICHMOND. Just would you leverage it all.

Ms. JOHNS. Oh, I am sorry. Yes. There is a matching requirement. And the good thing about the STEP Program is that it really gives—it gives an incentive. A bit of a jump start and another opportunity for states to build their own capacity for supporting exporting small businesses because as discussed earlier, some of those resources have gone away at the state level but this is a way to help replenish that opportunity.

Mr. RICHMOND. Thank you. Mr. Chairman, thank you. I exceeded my time but next year I will make that up to you.

Chairman GRAVES. Does anyone else have any other questions?

With that, I appreciate you coming. And I would encourage you if you have got to leave if one of your staff could stay to listen to the next panel. And I will go ahead and seat our second panel.

STATEMENTS OF MARK RICE, PRESIDENT, MARITIME APPLIED PHYSICS CORPORATION; MITCHELL GOETZE, PRESIDENT AND COO, GOETZE CANDY COMPANY, INC., ON BEHALF OF THE NATIONAL CONFECTIONERS ASSOCIATION; WADE MERRITT, VICE PRESIDENT, STATE INTERNATIONAL DEVELOPMENT ORGANIZATIONS; MAURICE KOGON, DIRECTOR, INTERNATIONAL TRADE DEVELOPMENT, EL CAMINO COLLEGE

Chairman GRAVES. We will bring the hearing back to order.

Our first witness is Mr. Mark Rice, who is the president and founder of Maritime Applied Physics Corporation. His company designs and builds high-tech Maritime vessels, including hydrofoils and unmanned vehicles for the U.S. Navy. They started with one person and grew into 80 full-time employees with the help of a Small Business Innovative Research Program. Mr. Rice received his Bachelor's degree in physics from the University of Maine and is a licensed professional engineer. Welcome. I appreciate you coming in and traveling all this distance.

STATEMENT OF MARK RICE

Mr. RICE. Thank you very much. Thank you, Chairman Graves and Ranking Member Velázquez and members of the House Committee. I appreciate the opportunity to testify.

Our company is a 75-person, 80-person employee-owned company. I founded it in 1986. The company builds five defense products. We are a manufacturer of defense products and these range from unmanned boats to very automated cranes. We also have about 10 R&D contracts mainly with DOD.

We have exported to South Korea, Germany, Scotland, France, and hopefully to Brazil. Our company has offices in three states and through the recession we have grown at an annual rate of about 20 percent due in large part to exports.

Our journey has not been easy to become an exporter and I would like to share a particular story with you about our experiences in South Korea. It began in the year 2000. We received an email from a business agent in South Korea. The agent had researched our involvement in a U.S. Navy project for supplying ship rudders through the Internet. And he indicated there was a similar program in South Korea. He invited us to visit the world's largest shipbuilder, Hyundai Heavy Industries in South Korea, and at this point we were a 25-person company with no exporting experience. We did not understand the laws, the customs, or the cultural aspects of doing business overseas. We had no idea who the Department of Commerce was or where to get financing. We were totally ill-prepared. We did not understand the laws, either in this country or overseas, and at the time it was really unclear to us whether we needed an export license, and once we understood that we might it was not clear whether this was from the Department of State or the Department of Commerce. We learned through trial and error until we found the U.S. Export Assistance Center in Baltimore and they really bailed us out of the export license problems that we got ourselves into.

So with that scare behind us we continued three more times to Korea and we got, in one case, the State of Maryland Export Assistance Grant. On each trip we were sort of gradually drawn a little further into this. We had never built these products ourselves. We had largely done the engineering for the products that we were talking to the Koreans about. We ended up in a head-to-head bidding competition against a British firm that was a multi-billion dollar firm. They brought in representatives of the British government. They had a retired Korean admiral on their staff. And we went head-to-head with them over a period of about six months. And at the end of that process we won the competition on both a technical basis and our cost was about half a million dollars below the British cost. We received a contract for 100 tons of machinery, hydraulics, and electronics. We came home to celebrate and to find 20 new workers to do the work. We then went to our bank, shared the news with our bank, and they promptly canceled our credit lines and said the deal was too big for us. And it was a large U.S. bank.

So we were in a very disparate business situation at that point and I approached a local bank and I found a very brave banker who understood the SBA Export Assistance Program, went to the SBA and basically stitched the deal back together. He saved our company. And after three years we basically got through the export process, delivered 100 tons of equipment, and broke even on the deal.

So without the Export Assistance Center, the SBA and Sandy Spring Bank, we would not have survived as a company. It was very difficult and it required a lot of commitment and time and resources, both from our company and from those people who helped us through this process. It was overwhelming and I can attest to that.

So the USEACs, the SBA, the local offices, the people we really go out and interact with on a one-to-one basis, are the people who saved our company, put this deal together, and turned us into an exporting company.

So there are four recommendations I would like to make at the end of this.

The interagency coordination of export licensing has gotten a whole lot better since we did this. The Department of State and Commerce are pretty well coordinated but we need to get to a one-stop shop here. Having two parallel processes is just confusing and it makes it twice as hard. We got caught between the two agencies.

The second one is the same recommendation on export financing, whether it is SBA, EX–IM, there are a myriad of opportunities out there. Not only do the small companies not understand these options but their bankers do not understand. So in many cases the banks that have to act as the go-between between the small business and EX–IM or SBA are not well informed in these programs and things like letters of credit and the complexities of international business are just tough.

The third one, as a country we need to increase our awareness of the need to export and the national priority given to exporting.

When I went to a shipyard in South Korea and I talked to the average worker, every worker in that shipyard knew the importance of exporting. When I go hire someone from a U.S. university or a U.S. high school, they have no idea. It is a cultural thing that we teach and we need to learn how to teach it.

The fourth one is the Department of Commerce recently reduced its staff in Washington by sending people out to the field offices. That is great. The real work in this business is done in the field offices. In our case the SBA representative was with the USEAC sitting in that office and had the Department of Agriculture been there and everybody else this whole thing would have gone more smoothly. So get people to the field and get the decision-making in the field. There is far too much bureaucratic time spent in these programs discussing the administration in the offices as opposed to the execution of their missions.

So I would like to thank the members of your Committee, Chairman, ranking member, and I look forward to your questions.

Chairman GRAVES. Our next witness is Mr. Michael—Mitchell. Mr. Mitchell Goetze, president and COO of Goetze Candy Company, Inc. Goetze Candy is a fifth generation family business that manufactures the trademark candy Caramel Creams and Cow Tales. Mr. Goetze grew up in the family business, attending his first trade show when he was 12, and he is testifying on behalf of the National Confectioners Association. Welcome and I appreciate you being here.

STATEMENT OF MITCHELL GOETZE

Mr. GOETZE. Thank you, Chairman Graves, Ranking Member Velázquez, and other members of the Small Business Committee for inviting me to testify on behalf of our company, as well as our trade association, and highlight some of the issues facing our industry and small business today.

The Goetze Candy Company is located in Baltimore, Maryland, and I am certainly honored to be here. The Goetze Candy Company was founded in 1895 by my great-great-grandfather and it has been in my family for five generations. We have 100 employees and manufacture, as you said, confections under the brand names Caramel Creams and Cow Tales. I am also the chairman of the National Confectioners Association.

The association is representing the United States Gum, Candy, and Chocolate industries of which 85 percent are small businesses like mine. U.S. confectionary is a $30 billion industry with international sales of well over a billion dollars. Industry sales grew by about three percent a year and international sales grew by about seven percent. Industry employs over 70,000 in manufacturing and over 200,000 when we include our suppliers and distributors that support the sale of our products. The confectionary industry is a critical component to manufacturing in the United States overall.

We welcome the opportunity to grow our exports but two key obstacles stand clearly in our way of export growth. First, the input costs of American products that are higher than our foreign competitors; and second, several bureaucratic obstacles and larger public policy issues that add complexity and impede trade. As a small company it is hard to find the resources to adequately research global markets and execute sales orders. Input costs drive a small company's ability to export our goods and present an extreme challenge. Sugar is the most widely used ingredient in the confectionary industry but the current U.S. sugar policy is woefully outdated. The current law allows only about 15 percent of sugar to be imported and what we are forced to buy domestically from a handful of sugar suppliers is priced at twice the world price. Actually, we had a price increase yesterday from the top three U.S. suppliers of sugar and it has officially doubled over the last three years, the price per pound.

The artificially high price of sugar directly drives the price of all other agricultural materials we buy. To be able to compete, companies today are moving operations to Canada and Mexico to avoid the U.S. sugar restrictions and take advantage of lower business operating costs. We need reform to the outdated sugar program now.

Health care expense has dramatically increased over the past 10 years. Goetze's cost to provide health care to our employees has risen two and a half times, pushing our rate from $182 to $465 per employee per month. We need to address the uncertainty of health care and the abuse of the system or companies like mine will be forced to raise employee contributions or worse, drop health insurance altogether.

All goods need to be transported to our ports on our coasts to be exported. Transportation costs are roughly 10 percent of operating costs for our industry and the freight cost per pound shipped has risen by 15 percent in two years. That increase along with a rise in diesel fuel price surcharges have led to a 34 percent increase in overall shipping costs for us. We advocate for increase in the truck weight limit to offset enormous transportation costs associated with the diesel fuel index.

The U.S. Government provides some great services to business but the promotion of these services offered must be increased. The Foreign Agricultural Service has been particularly instrumental through their Market Access Program known as MAP. We certainly support continuing MAP funding.

I would like to point to the U.S. Department of Commerce Gold Key Program, which was mentioned earlier, that could be a good model for use in the agricultural sector which it does not apply to us. A similar program would help us with basic steps of how export—how to export would be very helpful and make entering new markets less intimidating. On a broader policy scale, 95 percent of the world's population lives outside the United States and what an enormous opportunity for exporting small goods manufactured here. If tariffs were reduced by 10 percent to our top 17 export markets, NCA estimates that we could see more than a $14 million increase in U.S. export sales of confectionary goods.

We support the president's National Export Initiative to double U.S. exports and the most efficient way to do this is through congressional approval and a timely implementation of the pending Free Trade Agreements with Korea, Colombia, and Panama. With Free Trade Agreements in place, we would help lower our input costs, make our products more competitive, which will increase exports and grow jobs.

When a product is labeled Made in America that message resonates around the world. I believe that we can grow U.S. manufacturing but only if we consider a careful balance of reduced domestic regulatory burdens, smarter, more competitive supply management, increase marketing of government resources, and have the policies in place to not only allow our products to enter new markets but to be able to enter those markets at a competitive price.

In conclusion, owning or running a small company today, small confectionary company today, is far more challenging than even my grandfather could imagine. It has become so complicated and challenging at times that I forget that I am just manufacturing candy. There are many bureaucratic obstacles to overcome in order to even ready one's product to be able to break into an international marketplace and grow exports. I would like to say that our National Export Strategy is working but with the ever-growing obstacles and challenges I cannot.

Again, thank you for inviting me to share my perspective and I look forward to working together to find solutions to resolve these issues. And I am happy to answer any questions.

Ms. VELÁZQUEZ. Now it is my pleasure to welcome Mr. Wade Merritt. He is currently vice president of State International Development Organizations, the leading U.S. organization dedicated to supporting state international trade agencies. He also serves as vice president for the Maine International Trade Center where he works directly with small and medium-size businesses, as well as federal agencies to coordinate trade missions, technical assistance, and export credit assistance programs. Welcome, and thank you for being here.

STATEMENT OF WADE MERRITT

Mr. MERRITT. Thank you, ranking member, Chairman Graves, Ranking Member Velázquez, members of the Committee. Thank you for inviting me to testify today.

My name is Wade Merritt. I am the vice president of the Maine International Trade Center and currently serve as vice president of SIDO, which is the National Association of State Trade and Export Promotion Agencies. And an allied but separate group of boots on the ground providing export development services in the United States.

Nationally, SIDO states currently boast a domestic staff of 300 with a total budget of over $83 million for international development. I know that is not a lot when compared to the overall budget for the commercial service. Our overhead is lower and we have become experts in doing much more with much less.

The president's goal of doubling exports is ambitious and requires robust export development programs at both the state and federal level. The president also suggested that this growth be led not by the Boeings and Caterpillars of the world but by small and medium-size businesses like my friend here from the University of Maine, Maritime Applied Physics, or the 80 percent of my clients in Maine who have fewer than 100 employees. These small and medium-size businesses hold the largest potential but also require the greatest level of overseas support.

A 2006 World Bank study demonstrated that on average every dollar spent by countries on export promotion yielded $40 in new exports. And you heard from Director General Kumar that Commerce is showing a much higher number than that. And I would point out that our number was from 2006. Presently, our country's export promotion spending by percentage of what we export—and this is state and federal combined—is much closer to that of a developing country than to our peer nations. There is a lot of room to grow and the time to take advantage of that opportunity is now.

The states working collaboratively with the Federal government are ready to do our part. However, as states are being called upon to provide even higher levels of service, the current fiscal crisis has prompted state governments to make difficult choices. In just two years, state support for trade development and investment attractions dropped by 20 percent. States are having to choose short-term budget fixes over long-term solutions. And as I mentioned earlier, foregoing an investment with a proven 40, 90 or 135 to one return is not—just is not a choice that states should have to be making.

The STEP Program to the U.S. Small Business Administration is now poised to provide much needed support to our state trade offices and exporters. While the roll out of the program has been delayed as metrics have been revisited, proposals have unexpectedly had to be reformatted and resubmitted. And I can attest that I have personally been wrestling with this while simultaneously preparing this testimony. The program has the potential to truly revitalize American exports. Once STEP Program funds are awarded, states will quickly be in a position to enhance the services and assistance available to small and medium-size exporters in our states. I think that is a key point because we are much closer to the ground.

There are several export promotion priorities that should be addressed and implemented in order to maximize the chances of success for the NEI. First, the commercial service will be essential to deliver—a revitalized commercial service will be essential to deliver on the NEI's commitment. Even the best funded state trade program cannot provide global market coverage and all states depend on the worldwide network of commercial service posts to provide their businesses with market access in countries where the state has little or in my case no independent resources. State programs are well positioned to complement federal promotion efforts domestically through our on-the-ground practical assistance programs but reductions in CS budget and overseas personnel deployment adversely affects our programs and has a chilling effect on the ability of U.S. producers to export their products.

Secondly, access to traditional markets is essential. While accessing emerging markets is a worthwhile objective, most new-to-export companies will find the best opportunities where our exporters have enjoyed a comparative advantage in the past. Case posts such as Hamburg, Barcelona, Amsterdam have been closed and Canada, our largest trading partner and often the first export market, has just one American officer responsible for the entire country. These offices should be reopened and staffed as soon as possible.

Third, pricing for CS services. We heard that earlier, such as Gold Key and International Partner Search should be maintained at the current rate which we believe is affordable for small business. These programs represent some of the tools most frequently used to enter new markets and increasing the costs would be counterproductive to the growth of the NEI.

Fourth, support for the SBA's Office of International Trade is essential to the success of the STEP Program. Through STEP, the Federal government has provided much needed assistance to boost non-agricultural exports. Now it is necessary to fulfill that commitment by affording the SBA the resources it needs to name a full-time associate administrator for international trade and to supplement its staff with the numbers necessary to roll out this pilot program successfully and efficiently.

And finally, an enhanced partnership between the federal and state trade agencies to seamlessly deliver customer focused services is critical to expanding the pool of successful U.S. exporters and promoting market diversification among existing exporters. In order to better coordinate efforts and avoid duplicative services, there needs to be a mechanism for sharing metrics, tracking successes, and identifying the areas for improvement where currently there is no incentive for collaboration. American exports create and sustain millions of jobs in the U.S. and current prospects for expansion are excellent, but a collaborative partnership that combines resources and finds efficiencies at the federal and state levels in a systematic manner is the best way to assist companies in finding export success.

Thank you, members of the Committee, for allowing me the opportunity to speak. And I will also welcome your questions.

Chairman GRAVES. Our final witness is Mr. Maurice Kogon, director for International Trade Development, El Camino College in Hawthorne, California. Mr. Kogon has over 50 years of international business experience as a U.S. government official, business executive, educator, and consultant. His experience includes over 30 years with the U.S. Department of Commerce, which he held management positions in trade promotion and strategic planning. Mr. Kogon has a Bachelor's and Master's degree in Foreign Affairs with George Washington University here in D.C. and we welcome you.

STATEMENT OF MAURICE KOGON

Mr. KOGON. Thank you, Chairman Graves, Ranking Member Velázquez, and Committee members. Thank you for the opportunity to provide this testimony.

As you said, my name is Maurice Kogon and I have spent a lot of time in this field, at the federal and state level, with a multinational, as a small business owner and as an educator, including 33 years in the Commerce department. My testimony today raises a basic question about the National Export Initiative, specifically does it adequately meet needs of the thousands of small businesses that are or could be exporting? In my view, it is not yet as relevant or as helpful as it could be to meet needs of this vital constituency.

I have three main points. First, the NEI has an ambitious goal to double exports in five years but not a strategy that will get us there. The strategy relies too much on global economic factors we cannot control, while the programs we can control are not focused enough on the small businesses that most need export help, and also not enough on the services they most need at critical early stages. The NEI's export promotion programs are basically only what the government can afford; not on what can best help small businesses at each stage of their export development. Far too many small businesses with export potential are left to fend for themselves. Claims that the NEI is on pace based on recent large export gains belie the reality that most of these gains came from recovery and world import demand and would have happened anyway.

My second point is that the NEI does not adequately address what I see as our national export paradox. That while we are a very large exporting nation, we are not a nation of exporters. Roughly 85 percent of U.S. manufacturers do not export at all and over half of the 15 percent that do export sell only to Canada or Mexico. The NEI addresses the half of the 15 percent, the low hanging fruit, but essentially writes off the far larger group of potential new exporters in the 85 percent. U.S. exports would increase significantly if we could get more of the 85 percent into the export base. For that, in my view, we need to go beyond a low hanging fruit strategy. We need what I call a fertilize the tree strategy to optimize exports—that is, to increase exports to our full potential and capacity as a nation. An optimization strategy would focus not just on getting existing exporters into new markets, but would also cultivate the far larger group of potential new exporters that could most contribute to long-term export expansion.

It would have two interrelated goals. First, we need to increase U.S. exports as a percent of GDP. Although we are the world's third largest exporter, our exports to GDP ratio lags well below our major world competitors. For example, Germany is at 45 percent; we are at 12 or 13 percent. Our competitors, with comparable economies and competing in the same global marketplace, are more fully exporting to their capacity. We have the potential to close this gap. We are, after all, the manufacturing powerhouse of the world and the world leader in innovation and technology. And, most of our manufacturers are not even exporting yet.

Second, we need to increase the number of new exporters. We could come much closer to our national export potential if more non-exporters were to start exporting. We now have roughly 280,000 actual exporters in the U.S. As noted, they account for only 15 percent of all manufacturers. Many of the 85 percent non-exporting manufacturers may well have export potential. Why? For one reason they have succeeded in the world's toughest market—our own—against the same competition they would face in foreign markets. If they can sell competitively here, they have the potential to export to at least one or perhaps even many of the roughly 200 world markets.

If my suggested priority on new exporters makes sense, why is the NEI so narrowly wedded to the low hanging fruit? The reason is, and Mr. Kumar mentioned that and I agree, they cannot afford to do both. Limited resources should be reserved for the export ready firms able to make the best use of the trade promotion and matchmaking services. But that misses the larger point. The new-to-export sector is too important to ignore or write off. The solution is obvious. It is not to stretch federal resources further, but to collaborate with non-federal partners well equipped to fill the gap.

This gets to my third and final point, the need for systematic collaboration with non-federal partners. The vast network of state and local export assistance organizations could be part of an overarching export optimization strategy to both fertilize the tree and pick the low hanging fruit. Centers like mine and others are at the grassroots of potential new exporters. We have the expertise and resources and are ready and willing to engage in a meaningful collaboration. Unfortunately, I do not see a federal mindset, a plan, or a mechanism to collaborate. The NEI is more concerned with internal collaboration within the TPCC. It gives abundant lip service to collaboration with others, but not much else.

Here is what real collaboration would look like in my view. Non-federal partners would have a seat at the TPCC table. They would help plan and develop a holistic export optimization strategy that shares data with potential and existing exporters, jointly recruits prospects, reconciles programs to reduce wasteful duplication and overlap, and coordinates the seamless delivery of complementary services to both new and existing exporters.

Before concluding, let me emphasize that my concern is with the strategy, not with the programs. They do increase exports and do have a high ROI to justify their costs. The only problem is that they do not go far enough and do not meet enough small business needs.

Thank you again for the opportunity to share my thoughts. My written submission elaborates on all my points today, including specific needs of small businesses through all stages of the export process from start-up to getting paid. Thank you and I welcome your questions.

Chairman GRAVES. Ms. Velázquez, I will start with you.

Ms. VELÁZQUEZ. Sorry. I was not ready.

Chairman GRAVES. That is okay.

Ms. VELÁZQUEZ. Mr. Kogon and all of you, it has been incredibly helpful to us, your testimony, and specifically your experience in the exporting business.

Mr. Kogon, you said you do not have any issue with the program but the strategy. In putting together the formulation of the strategy did the administration reach out to any of you or do you know of any input that was requested from businesses that are in the export business—in the exporting business?

Mr. KOGON. When the NEI was first issued there was an opportunity to submit comments to the TPCC. I submitted a very detailed white paper saying basically what I said today in much more detail and laying out a complete strategy that I thought would be more effective. I do not believe anybody paid any attention to that frankly and I thank the Committee for recognizing that that paper exists.

Ms. VELÁZQUEZ. Any other? Yes, Mr. Rice.

Mr. RICE. Yes. Yes, ma'am. There was an outreach effort and there were several visits through the District Export Council. There were road shows that traveled through the country but I agree that I think it as more show than substance. I did not feel that I had an opportunity to significantly influence it.

Ms. VELÁZQUEZ. Mr. Rice, you spoke that when you first were contacted by the overseas industry or business you went to the State Department, the Department of Commerce, and the SBA to complete your first overseas sale. Of all those agencies, which of them was the easiest one to work with? And this is not to be critical of the agencies; it is just to learn how to better improve what they do.

Mr. RICE. There were two key people. There was in the USEAC in Baltimore a gentleman named Bill Burwell and in the SBA there was a woman named Debora Conrad. I mention the names because they were individually extremely helpful as opposed to organizationally. They understood our problem, they took us under their wing, and they really helped us through these things. And that interagency interaction worked extremely well.

And to your earlier question, there was a great division between the financing role and the overseas Gold Key sort of reach out role. And I understood that very clearly from the first interaction with the two groups.

Ms. VELÁZQUEZ. Mr. Kogon, I asked the representative, the witness from the USDA the question that the strategy was predicated into the success of trade agreements—Korea, Panama, and Colombia. What will happen to the strategy if we do not get those trade agreements ratified?

Mr. KOGON. The strategy is multifaceted. It includes the reduction of trade barriers and it also——

Ms. VELÁZQUEZ. Oh, the success of the strategy.

Mr. KOGON. Yeah. I do not, you know, they were already claiming success of the strategy based on export increases of the past two years. I do not think it had anything to do with the strategy. For the same reason, a couple of years ago exports went down and I do not think they would blame bad strategy on that. So I think strategy is not really the driving force here. It is what we can do to help companies get into exporting.

Ms. VELÁZQUEZ. Okay. Mr. Goetze. Yes, sorry.

Mr. GOETZE. That is okay.

Ms. VELÁZQUEZ. You wanted to add something?

Mr. GOETZE. Yes. I would just add to that. You know, from our perspective with the Free Trade Agreements, I mean, what they allow certainly is the first step of opening those new potential export markets. But along with Free Trade Agreements, they also include the protection of intellectual property. There are agreements on that which is a big concern of U.S. brands like ourselves. Mr. Rice manufactures a product that is very successful because of its technology, whereas a piece of candy, you know, is not all that complicated to go into another foreign land. It is easily duplicated. So the protection of intellectual properties is important.

And then certainly some of the issues that have floated around about child labor certainly dealing with countries with Free Trade Agreements. There are also stable economies. The governments usually have collaborative efforts.

Ms. VELÁZQUEZ. Are those the reasons why in your testimony you said that the North American Free Trade Agreement created a disincentive for you as companies to remain here but you also said that you support Free Trade Agreements with Korea, Panama, and Colombia. Why will these trade agreements produce different results than the ones from North America?

Mr. GOETZE. Well, first of all I think I am here representing certainly the U.S. company with extreme input costs and, you know, when we originally spoke I thought my contribution could be that before a product is even ready to be exported, input costs are important. I think when you take a look at Free Trade Agreements, you know, if you talk about the north or the south of us they are very similar to what we did. That is the way we see the world. When we try and take this product and go to the Middle East which we were recently over in Dubai looking at a show or Germany through the NCA, through the MAP Program, it is more complicated. But with an agreement in place I think as a small company you feel more secure conducting business with a country like that or a country that falls under a Free Trade Agreement for all the reasons I mentioned—the intellectual properties, the stability of the economy, things of that nature.

Ms. VELÁZQUEZ. Thank you.

I have another question. I will come back.

Chairman GRAVES. Okay. I have got a question concerning—and it was brought up in the earlier panel. And it comes to marketing plans. How much, you know, we have so few firms obviously or small businesses in particular, you know, exporting stuff. How much of that is related to—and I welcome input from all of you—how much of it is related to market? I mean, that is obviously—it can be extraordinarily expensive. And if you are concentrated on domestic here in the United States obviously and I suppose it could be very, very tough to go into another country and try to even let them know you have got a product out there available, I mean it is very curious to me and, you know, is it just too expensive to try to do that? And you know, where do you go, you know, what country do you pick to try to make a dent at least? Let us start with Mr. Rice.

Mr. RICE. A couple of thoughts. Number one, the expense of going overseas is in the $5,000 to $10,000 range for a reasonable thing. And that is a lot for a small company, a very small company. So the more you can do virtually—so the Department of Commerce has some virtual methods to get you overseas to get your feet wet.

The second thing I would say is when I came back we put together a program that is called Export Tech, which is a three-day program where a CEO from a small company comes in. The first day it is really infusing them with knowledge. The second day is addressing specific problems they may have in the markets they think they want to go to. And the third day, which is two months later, they have to provide a business plan to a council of their peers and experts on where they want to go, what it is going to take, and what the realities of the business plan might or might not be. I think that is the sort of training we need to get out to people, whether it is through Mr. Kogon's organization or these public-private partnerships. People just do not understand what the markets are. The business plans are daunting. They do not understand the cultural aspects and they need help. And they have to have help coaching themselves through the process. They have to do it. As a farmer, if you were going to export, you know, to

Dubai and you needed to understand what crops you were going to raise and what might there be a demand for, that is where the foreign—where the foreign presence and the commercial service really helps. It lets you reach into the country, understand through their culture what their market is, and then feed that information back through the USI Act to the local business to reach their educational level up to where it needs to be.

Mr. KOGON. I would like to comment on that. Mr. Chairman, I think you started to say how important is marketing and market planning. For new-to-export companies, which is my focus today, none of which is being provided by either SBA because they do not have the competence to do it and US&FCS because they are not interested in helping new-to-exports; they are focused on the other. It is not one thing or two things you can do. That is why we developed a seven-step export enabler program. And we start with assessing whether that company has the potential and readiness to export. Then we train them on how to export. Then we provide the research to identify which markets are most promising and what is the best strategy to get into those target markets. Then we help them develop an export market plan. And the market plan would address the distribution pricing, promotion, and adaptation strategy in each target market. Then we move to the marketing, the promotion, to implement those aspects of the market plan. So we take them to trade shows or we recommend that they improve their website or they do all the marketing things.

And the seventh step is the matchmaking. Matchmaking through Gold Keys is very important. What you should know is the U.S. and Foreign Commercial Service is no longer able to provide the level of Gold Key support that is needed. And when the STEP Program comes along with more demand for Gold Keys it is going to be a mess—there are going to be some problems.

Mr. GOETZE. I would say when talking about marketing a product overseas, we spend approximately $12,000 to send two people to let us call it Germany. Germany every year. That is two people. That is time away from the office. We participated in that show for 10 years. So in essence we have spent about $120,000 just in participating in travel and the show. Right now we roughly do maybe a half a million dollars in export sales. The real challenge is when you show up there, is actually selling the product and having the person that you are trying to sell it to understand, you know, your product just in general.

Again, I go back to the input costs. Usually sugar and other agricultural products that are in our Caramel Creams, you throw the cost out to them and they shake their head and say, well, no, that is not what it should cost. So once you get over that and you come home it is usually a nine-month to a 12-month sale cycle for confectionary. By the time you finish your communication and negotiation you might have to come up with some type of special packaging or labeling to comply with that country.

In our case, those sales, unlike the United States, you go and you sell a retailer here in the United States, it is sold and it usually stays on the shelf if you perform. International business constantly needs this feeding that you hear. There are not the retail—other than Europe there are not the retail placements that there are here in the United States. It is mainly an ad hoc sale. So every year it seems we are duplicating the sale thing. We know you get residual sales if the product sells well or they find a different market. But the challenge is it is not placed on a retail shelf in most cases.

Chairman GRAVES. Mr. Merritt.

Mr. MERRITT. Thank you, Mr. Chairman. I completely agree with my colleague form California that the ability that it will sell in the United States pretty well, you know, you are battle hardened by the time you reach the world market. I think that is a good thing.

What we find is that it is incredibly difficult to shake some of these small business owners from their complacency, that they have been able to survive on the U.S. market for so long that the thought of even getting out of the office is, you know, it is not there.

It is very expensive to market. We run trade missions in Maine on a complete total cost recovery basis. Those are, again, they match up very nicely with Mr. Rice and Mr. Goetze. About $7,000 for a participant to go overseas with us for a week. The USDA has fantastic programs for agricultural exporters and then we have been able to stretch those into fishers and into forest products, which for a state like mine that is a large portion of our base but that is not the case necessarily for other states. It is why we got really excited about the SBA STEP Program, honestly, which is that there is lots of money out there for agriculture and for forestry and for fisheries, but there has never really been anything for manufacturers which is one thing that we have kind of thrown out there for a long time of our competitor nations are, you know, providing whatever. I mean, it does not have to be much. In our case, small—we were able to find from another pot of money small grants. A thousand dollars to put towards companies participating with us on trade missions to offset costs of travel or matchmaking services or whatever. And just that tiny little bit of money was enough to be an incentive to get them out of the office and actually looking at that international market.

So, you know, we had not pushed. We, the states, had pushed Commerce to do something like this, to do a market access program like grant program for manufacturers. SBA kind of came out with this more flexible program that said the states could apply for it and do whatever you would like to do for export development. Most of us have decided to go that route. That is what we are doing with our application is to provide offsetting costs for Gold Keys. Mr. Kogon mentioned, however, there may be an issue with capacity at the commerce level as to whether or not the posts are going to be able to handle this influx of Gold Keys which is going to come out of many of our STEP proposals.

And then finally, just to kind of put a point on the difference between USDA and the ag programs and everything else. We heard a couple of years ago that there was actually more money that was given to the California Raisin Board for marketing of California's raisins than there was in the entire one grant program that the Commerce Department offered for manufacturers. Just one industry was receiving more money than all the rest of the manufacturers could even have the potential to get their hands on which was not much honestly.

So I guess that would be my key. It is just difficult to get people out of the office and if you are able to provide them even a small incentive, you know, they are willing to do it and willing to think about it.

Chairman GRAVES. Mr. Goetze, do you guys use beet sugar or cane sugar?

Mr. GOETZE. Cane.

Chairman GRAVES. Cane.

Ms. VELÁZQUEZ. Mr. Merritt also answered my question.

Chairman GRAVES. Okay.

Ms. VELÁZQUEZ. Thank you.

Chairman GRAVES. Mr. Bartlett.

Mr. BARTLETT. I am sorry that I could not have been here for the testimony and the questions but I wanted to get back because two of our witnesses are from Maryland. Thank you very much.

When I ran for Congress 20 years ago there was an article in Money Magazine that said that Maryland was the least attractive state in the union for retirees and business. And just the other day, I forget which entity it was, said that once again Maryland is the least attractive state in the union for business. So I wanted to come to see two really triumphant warriors. You are still making it in Maryland. Thank you very much.

You know, every six hours, in fact, just a little less than that, we have another billion dollar increase to our debt. And about every 12 hours we have another billion dollar increase in our trade deficit. I know people who have been—who feel that because that dirty smokestack industry is moving overseas and we have that nice, clean service-based economy in our country now. And sometimes if you push something to an absurdity you can say, gee, that is not going to work. Is it?

And no matter how much you charge for cutting each other's hair and doing each other's laundry, that is not going to be a viable economy. Is it? And so what this hearing is about today is enormously important. And we have got to do something to reduce that trade deficit. I do not know which one of those two deficits will bring us to our knees first; whether the budget deficit and the increasing debt or the trade deficit. When every 12 hours another billion dollars of wealth leaves our country—it comes back. A lot of it comes back but it comes back to buy us. Seventy percent of all of our cement, about the same number—70 percent of our track is owned by foreign countries now. So I really appreciate what you all are trying to do increasing trade because that will help to lower that trade deficit.

We have—one of the first things that we can do, you know, what you have to do to compete with those people over there, unless you are competing with somebody in Japan, every one of those companies pays less corporate tax than you do. You have the second highest corporate income tax in the world. That is a little tough for you to compete in a global marketplace when you start out with that deficit, is it not?

And then we have probably more regulations here than most places. There was an article that really gave me some pause. It must be a year or more ago now and it was in a strange place. It was a National Demographic. I do not know if you read it or not.

It was the story of two Chinese businessmen, a local contractor, and a reporter. And they went to a shell of a building in a small Chinese town. And they were going to build a factory. And the reporter says that the senior businessman took a scrap of paper out of his backpack and wrote an outline of the building on it and said I would like to put, you know, restrooms here and manufacturing here and so forth and so forth. And he timed them and it took him an hour and eight minutes. And he had engineered the conversion of all three floors of this building for a factory. And then he turned to the—the businessman turned to the local contractor and said if you do not use cheap materials and do a good job, I will get you to do my next factory conversion. And he said and I would like you to start immediately. And the local contractor looked at his watch and he said it is 2:30. Is it okay if I start tomorrow morning?

Wow. How many years would it take us before we could get to that point after our environmental impact study and so forth? And I wondered, you know, just how long—just how long can we continue this fight with all of the problems that we have with the second highest corporate income tax in the world with all of the regulations, and with the impediments starting a new business. Can you start—I would like you to start immediately. It is 2:30. I said, okay if I start tomorrow?

So I want to thank you very much for what you do for our country and, you know, help us fight the battle to get the taxes down, to get regulations down so that you have a truly level playing field.

The fact you are able to export at all means that you are super performers because all the impediments that we have laid in your way you do very well to be able to compete. We would like to help you compete better. Thank you very much for what you do for our country and thank you, Mr. Chairman.

Chairman GRAVES. Thank you.

I want to thank you all for participating today. We are going to closely follow the bureaucratic obstacles that small business exporters are facing right now. And I plan to let you know—I plan to send a letter to the U.S. Government Accountability Office. The GAO requesting a report on the efficiency of trade promotion, the efficiency of the Trade Commission, coordinating committee, and the barriers faced by small business exporters.

I would ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record. Without objection, so ordered. And with that this hearing is adjourned.

[Whereupon, at 4:00 p.m., the Committee hearing was adjourned.]

CERTIFICATE OF NOTARY PUBLIC

DISTRICT OF COLUMBIA

I, Stephen K. Garland, notary public in and for the District of Columbia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Notary Public, in and for the District of Columbia

My Commission Expires: May 31, 2014

Testimony of
Assistant Secretary for Trade Promotion and
Director General of the U.S. and Foreign Commercial Service Suresh Kumar
before the House Small Business Committee on
Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?
July 27, 2011

Chairman Graves, Ranking Member Velazquez, and distinguished Members of the Committee. Thank you for the opportunity to appear today to discuss how the Obama Administration has helped small exporters and the National Export Strategy.

The National Export Initiative (NEI) is at the forefront of the Obama Administration's short and long term efforts for winning the economic future. The President's goal of doubling U.S. exports by 2015 challenges us to enhance our competitiveness, create sustainable jobs and build a stronger America. What sets the NEI apart is that it is the first Presidential export promotion strategy, one that leverages all the resources of all the export promotion agencies of the Federal Government. The President created the Export Promotion Cabinet, which includes the Secretary of Commerce and the heads of all the other trade-related government agencies, and charged it with developing and implementing the NEI.

By collaborating with local and state government, trade associations, organizations such as the State International Development Organization (SIDO), local chambers of commerce and others throughout the private sector, the Federal Government is enhancing its reach into business communities to identify opportunities and to help U.S. companies export to new markets.

The 2011 National Export Strategy provides a framework for how to continue implementation of the NEI. As reported in the Strategy, priority number one of the NEI is to develop programs designed to enhance export assistance to small- and medium-sized enterprises (SMEs). The United States and Foreign Commercial Service (US&FCS) has a statutory mandate to assist SMEs to grow exports. It is essential both to national economic recovery and U.S. global competitiveness that U.S. small businesses participate more actively and effectively in export markets.

Our clients have told us that they want assistance in understanding the basics of exporting, gaining knowledge of our products and services, and securing access to finance. That is why the Obama Administration has encouraged and facilitated SME exports by raising public awareness of export opportunities and available assistance and by directing U.S. export promotion and financing agencies to revamp their services to address the changing needs of exporters. Starting this year, members of the Export Promotion Cabinet have travelled to local communities to engage small businesses make them aware of the benefits of exporting, and inform them of the various Federal Government programs to help them connect to overseas markets. Through the *New Markets New Jobs NEI Small Business National Tour,* the members of the Export Promotion Cabinet will educate 3,500 small- and medium-sized companies about export opportunities and directly connect them to federal and state export resources. The first five conferences, held in Minneapolis, Minnesota; Los Angeles, California; New Orleans, Louisiana; Wilmington, Delaware; and Charlotte, North Carolina, have reached over 1,000 companies.

The service that I am privileged to lead, the US&FCS, is a one-stop shop for SMEs that operates as a clearinghouse to link U.S. exporters to services throughout the Federal Government. We have a global network of trade specialists that allows us to provide a broad array of export services and programs to assist U.S. businesses. Approximately 1,450 trade specialists across our 108 domestic U.S. Export Assistance Centers and 126 offices in our embassies and consulates across 79 countries provide soup to nuts programs that include:

- market research;
- market entry plan development;
- information and help on securing access to finance and working capital;
- assistance on navigating foreign customs and regulations;
- classic matchmaking such as prescreening potential distributors and joint venture partners;
- advocacy to ensure our businesses have a level playing field in foreign public procurement projects; and
- commercial diplomacy that provides solutions to programs such as nontariff barriers.

Our trade specialists are the boots on the ground in local communities across the country that connect U.S. businesses to opportunities and the various programs that the International Trade Administration (ITA) and USFCS has to offer such as:

- trade missions to different markets;
- International Buyer Programs at various U.S. trade shows; and
- regional trade fairs.

The US&FCS also houses the Secretariat for the Trade Promotion Coordinating Committee (TPCC) that promotes joint collaboration among the 20 federal agencies involved in trade promotion, including the Small Business Administration (SBA), the Export-Import Bank (EXIM Bank), and the U.S. Trade and Development Agency (USTDA). We work closely with each agency to focus the Federal Government's resources so that America's SMEs are provided with the highest quality services. For example, the International Trade Administration and SBA worked closely to design a single, uniform method for identifying and referring new clients to the most appropriate local resource or TPCC export promotion service provider. This year, we developed an enhanced client intake registration form on *www.export.gov*, the Federal Government's export assistance Web portal, which allows the TPCC agencies to track how current exporters or potential exporters heard about the Web portal. More importantly, the registration form enables agencies to more accurately identify new-to-export and new-to-market companies and refer them to the most appropriate federal resources for personalized service. Once registered, companies also receive a free three-month subscription to the U.S. Census Bureau's *USA Trade Online* and are positioned to receive valuable customized marketing knowledge in the future.

Through the NEI, President Obama called on us to leverage the combined export promotion resources of the Federal Government to the maximum benefit of U.S. businesses. And this is what we are doing by bringing even greater focus that allows us to use our limited resources more effectively. We are focusing on four ways to help increase U.S. exports:

1. Get more companies than the current 280,000 exporters to export through the New to Export initiative. In collaboration with ITA, SBA focuses on this area.
2. Get the 58% of U.S. exporters who currently export to one country only, to expand into more markets. This New to Market approach is the principal focus of the US&FCS.
3. Get current exporters to increase exports to current markets. The Increase to Markets initiative is the focus of EXIM Bank and USTDA, with assistance from US&FCS.
4. Protect U.S. businesses in all markets. This is the responsibility of all agencies that work on trade. For example, the Department of Commerce's www.stopfakes.gov is the online resource for U.S. firms, particularly SMEs, to access tools and services to help protect intellectual property rights. In addition, ITA's Import Administration works to level the playing field for companies harmed by unfair trading practices of foreign entities.

The NEI is off to a good start and is delivering the results that we set out to achieve. Exports comprised 12.5% of U.S. GDP in 2010, up from the 11.2% recorded in 2009. Exports contributed nearly half of the 2.9

percentage point growth in real GDP in 2010. The $1.84 trillion in exports of U.S. goods and services represents the second-highest annual total on record. For example, Chairman Graves, in your state of Missouri, exports of merchandise grew 36% in 2010, much faster than the national growth rate of 21%. Thus far for 2011, we remain on pace to achieve the President's goal. In May 2011, U.S. exports of goods and services totaled $174.9 billion, with record exports of services at $49.7 billion. The monthly export value for U.S. capital goods ($41.4 billion) was also the highest on record in May 2011. Overall for the first five months of 2011, exports of goods and services are up 16.4 percent, which is higher than the 14.8% Compound Annual Growth Rate (CAGR) needed to double exports by 2015.

Last year, US&FCS helped 18,000 companies to export, of which 16,000 were SMEs. As a result nearly 5,600 companies exported for the first time or increased their exports overseas, 85 percent of which were SMEs. In total, we helped U.S. companies post over 12,000 export successes in 2010. And these are not the only metrics that we're proud to report. For the first-time, the TPCC has developed metrics for measuring the Federal Government's impact as a whole, rather than highlighting individual agencies' successes. The metrics are broadly organized in three areas: *Trade Advocacy and Export Promotion, Trade Financing*, and *Reducing Barriers to Trade and Enforcement*.

It is one thing to look in the rear view mirror and another to look prospectively on how to drive the future. To "win the future" this Administration continues to focus on innovation and to strengthen programs that work, and push for initiatives that help U.S. businesses. This is why the pending trade agreements with Korea, Colombia and Panama are a priority for the Obama Administration. With the Korea trade agreement alone, the U.S. International Trade Commission estimates that U.S. exports might increase by more than $10 billion and could support more than 70,000 American jobs. The agreement would eliminate tariffs on over 95 percent of industrial and consumer goods within five years.

The US-Colombia Trade Promotion Agreement would increase U.S. GDP by an estimated nearly $2.5 billion including through expanding U.S. merchandise exports by $1.1 billion, and would eliminate tariffs for over 87 percent of U.S. exports of consumer and industrial products within five years. And with the Panama Trade Promotion Agreement, 87 percent of U.S. goods would enter Panama duty-free immediately; remaining tariffs would be eliminated within 10 years. To compare, in 2010, 98 percent of Panama's exports to the United States received duty-free treatment, yet fewer than 40 percent of U.S. exports entered Panama duty-free.

SMEs will benefit from passage of the pending FTAs, including from reductions in tariff rates and non-tariff barriers, as well as improvements in business transparency. Improved services facilitating access to information about FTA trading partners will deepen SME-to-SME engagement in these markets. ITA developed over the past year a new online capability to help U.S. small businesses, stakeholders, and the public take better advantage of new export opportunities with the 17 existing and three pending U.S. FTA partners. In April 2011, we launched the "FTA Tariff Tool" on *export.gov* as a powerful new means for SMEs to take greater advantage of FTA markets. This free FTA Tariff Tool empowers the user to perform, instantly and at a glance, industrial product searches for tariff treatment under U.S. FTAs.

Knowing that although trade better positions American products in the competitive global marketplace, it also means adjustments for the American worker, the Administration is committed to a strong and robust renewal of Trade Adjustment Assistance (TAA) that supports Americans who need training and other services when their jobs are affected by trade. TAA is a key component of our comprehensive legislative agenda for trade policy. Preparing American workers for the transition into a new era of global trade policy is essential to maintaining America's economic preeminence.

Engagement with our trading partners overseas to ensure a level playing field is critical to the success of the NEI. The Obama Administration is committed to free and fair trade, and the enforcement of our trade laws and agreements is imperative to the success of our companies. ITA has continued its vigilance in its review of trade compliance cases (219) and resolving market access barriers (82) in 2010. Moving forward, the Administration has identified several areas of focus which are among the most critical to the success of the National Export Initiative including: (1) increasing coordination with state export promotion programs and nonprofit associations; (2) identifying and encouraging exports by U.S. companies selling technologies in high-growth sectors; (3) ensuring better data and measurements of the U.S. services economy; and (4) approval and implementation of the pending trade agreements, along with a robust renewal of Trade Adjustment Assistance.

In conclusion, let me emphasize that American businesses, particularly small- and medium-sized enterprises, have the full support of the U.S. government in connecting potential exporters to global partners and markets.

Thank you again for the opportunity to appear before you today. I look forward to answering your questions.

U.S SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C. 20416

TESTIMONY OF MARIE JOHNS

DEPUTY ADMINISTRATOR

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS

Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?

JULY 27, 2011

Thank you Chairman Graves, Ranking Member Velázquez, and members of this committee. It is an honor to be here to testify today.

In his first State of the Union address, President Obama announced the National Export Initiative, and his goal of doubling US exports in five years. This is an important goal. Increasing exports will strengthen our economy, bolster our global competitiveness, and create good jobs.

As the agency that serves America's small businesses, the SBA has an important role to play. We are working with our partners across the federal government to leverage federal resources in support of small businesses. Meanwhile, Administrator Mills chairs the Small Business Working Group of the Trade Promotion Coordinating Committee (TPCC), which is the main federal body working to encourage more U.S. businesses to export.

Small businesses are well poised for growth through exports. With growth in global networks and communications, new markets are continually opening for small business. Since 2003, America's small business exports have grown about 80%. They now account for nearly $500 billion in annual sales. However, small business only represent about 30% of export revenues, and more than half of small business exporters only ship to one country.

The SBA, along with our partners in the TPCC, is working to increase both the **number of small business exporters** and the **number of countries to which they ship**.

Our plan, which has been incorporated into in the 2011 National Export Strategy, has four components:

- First: Identify small businesses that are ready to export.
- Second: Prepare these small businesses with counseling and technical assistance.
- Third: Connect small businesses with export opportunities.
- Fourth: Support these small business exporters with loans and counseling.

SBA and our partner agencies have done extensive outreach to identify and motivate small business exporters. For example, the administration launched a video series in partnership with Inc.com and ATT. SBA and Visa are also working together on a video contest, which will be out in August, to promote exporting.

In addition, the Department of Commerce and SBA have worked closely together to identify and refer new clients to the most appropriate resource. An improved client registration on www.export.gov is identifying new-to-market and new-to export companies. New-to-market leads are being distributed to USEACs for follow-up. SBA is designing a results-driven process to direct new-to-export companies to the appropriate local resource partner, to help them take the next step in the export process.

To better prepare small businesses for successful exporting, federal agencies have collaborated to "train the trainers"—offering export training for SBA resource partners, such as counselors at the Small Business Development Centers, Women's Business Centers, and SCORE. The Small Business Jobs Act contained additional funding for this training. SBA is tapping into that funding to train District International Trade Officers on the variety of federal resources available to small business exporters. SBA's Office of International Trade and the TPCC have also created a training program for SBDC counselors that will serve as preparation for SBJA required international trade certification.

At the same time, we have launched online trainings such as the "Six Steps to Begin Exporting" tool on export.gov, and the Export Business Planner on sba.gov.

Meanwhile, the NEI is working to connect small businesses with export opportunities. In September of 2010, we launched a series of export matchmaking events. The first of these events in New Jersey drew participation from approximately 150 small businesses, lenders, and others. The results of a participant evaluation were overwhelmingly positive, and many attendees indicated an interest in future events. There will be two more of these events in 2011, and the program will be expanded throughout the rest of the country in 2012.

USTR, DOC, and SBA also worked together to launch a web tool that helps small businesses navigate tariffs and free trade agreements, available at export.gov.

Lastly, SBA and other agencies continue to support small businesses once they have begun exporting. This includes an increased presence at international trade shows, coordination of marketing materials, and ongoing outreach to lenders to encourage their participation in export financing programs.

The SBA received support from the Small Business Jobs Act, which contained many new tools and enhancements to existing programs that support small business exporting.

For example, the SBA's international trade loans were enhanced by the Jobs Act. The act raised the size of these loans to $5 million, and made the quick turnaround Export Express pilot permanent. Thanks to increased guarantee percentages, increased loan limits and an improving economy, SBA export loan programs have seen a major uptick over last year's levels.

In Missouri, Environmental Dynamics, Inc took advantage of an Export Working Capital Loan once the limit was raised to $5 million. The increased loan size made the program much more appealing to the company. The firm, which has sold internationally for twenty years, is using the loan to finance an expansion.

Meanwhile in New York, TurboFil Packaging Machines used an Export Working Capital loan to help the company complete a large overseas contract that came to them through a web search.

The agency is also reviewing applications for the State Trade and Export Promotion grants program, created by the Jobs Act. The STEP grants will provide $30 million to states for export assistance. We expect to advise states of their awards in September.

These and other new initiatives will provide more resources to small businesses as they begin to grow and create jobs through exporting.

The success of the NEI depends on the work of more than a dozen agencies across the federal government. Each agency has staff dedicated to working on NEI initiatives, who meet and communicate regularly with their colleagues throughout the administration. We have worked to reduce bureaucratic barriers and make our efforts as cross cutting as possible. For example, every agency involved has committed to using export.gov as the main point of entry for exporting online. We know that interagency collaboration, and cutting down on bureaucracy, is essential to our efforts. Overall, our goal is to link, leverage, and align federal resources and make them work for small businesses.

Thank you, and I look forward to answering your questions.

Statement by Christian Foster
Deputy Administrator of the Foreign Agricultural Service
U.S. Department of Agriculture
Before the U.S. House Committee on Small Business
Washington, DC
Wednesday, July 27, 2011

Mr. Chairman, members of the Committee, I am pleased to appear before you today. In his 2010 State of the Union address, President Obama told the nation, "we're launching a National Export Initiative that will help farmers and small businesses increase their exports." The U.S. Department of Agriculture (USDA) has taken the President's charge to heart and ratcheted up our export assistance efforts. The efforts of USDA personnel throughout the country and around the globe, bolstered by public-private partnerships, have assisted U.S. farmers, ranchers, and all agricultural exporters in achieving record export sales. In fiscal year 2011, we expect U.S. agricultural exports to reach a new record of $137 billion.

LINKING U.S. AGRICULTURE TO THE WORLD

For more than 50 years, the Foreign Agricultural Service (FAS) has led USDA's efforts to open and build overseas markets. The National Export Initiative (NEI) goal of doubling U.S. exports has energized FAS's global network of agricultural economists, market development experts and trade specialists both in Washington, DC and throughout our network of key international offices. This is because we know that the more agricultural products we sell to other countries, the more jobs we support right here in America. In fact, USDA analysis has shown that every $1 billion in agricultural exports supports 8,400 American jobs and generates an additional $1.31 billion in economic activity.

COMMITMENT

President Obama's National Export Initiative calls for a Government-wide approach, and our commitment to this Initiative starts at the top. Next Wednesday, August 3, Secretary Vilsack will host the Administration's NEI Small Business Tour event in Milwaukee, Wisconsin. The event titled "New Markets, New Jobs," is one in a series of Administration events specifically designed to help connect small- and medium-sized businesses with the resources they need to sell more of what they make in markets overseas. Collaborating with USDA at the event will be representatives from the Office of the U.S. Trade Representative (USTR), the U. S. Department of Commerce (DOC), the U.S. Small Business Administration (SBA), and the Export-Import Bank (EXIM).

COORDINATION

USDA has stepped up its export program coordination with other Federal agencies through the Trade Promotion Coordinating Committee (TPCC), which is comprised of 21 agencies and is chaired by the Department of Commerce. The Committee's efforts have focused on developing and implementing interagency communication and outreach plans primarily with the SBA, EXIM, and DOC. This inter-agency collaboration extends to U.S. embassies overseas where FAS Foreign Service officers work with DOC and the U.S. Department of State to assist the export efforts of small companies.

In addition to working with our Federal partners, FAS has forged important relationships with export assistance and small business centers, state agencies, and U.S. trade associations in an effort to raise awareness of the benefits of exports and the range of U.S. Government assistance available to small businesses.

USDA is broadening its outreach throughout the country at the local level to alert small and medium-sized enterprises (SMEs), especially in rural areas, about the tools available to start or expand exporting. To that end, FAS is enhancing collaboration with its USDA sister agencies, the Farm Service Agency (FSA) and Rural Development (RD), through their field offices to get the word out on the scope of USDA and other Federal assistance programs and services.

This afternoon, I would like to highlight a few of USDA's specific actions in a number of NEI priority areas of activity.

NEI PRIORITY: EXPORTS BY SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

In 2010, more than 625 new SMEs benefited from USDA's Market Access Program (MAP) to promote their products overseas, which resulted in over 975 first-time sales. A cost-share program, MAP provides partial matching funds to U.S. organizations to conduct a range of activities, including market research, consumer promotion, maintaining and expanding relations with foreign buyers, market development, and market access support. The economic impact of MAP and the Foreign Market Development (Cooperator) Program (FMD), our second largest market development program, is striking. A recent cost-benefit analysis concluded that U.S. food and agricultural exports increased by $35 for every $1 invested by government and industry on market development under these programs.

For example, WildRoots, a small healthy snack food company, with two production facilities in Illinois and one in Nebraska, matched MAP branded funds to market their products in Canada. Export sales soared from zero in 2008 to over $4 million in 2010. The company buys blueberries from Michigan, corn and soy products from Illinois, oats from Nebraska, cranberries from Massachusetts, and almonds from California. According to a WildRoots' co-founder, "Without the branded program, we simply would never have been able to compete with Canadian producers. It has moved our business to a new level and has promoted U.S.-based agricultural products, creating jobs in an economy that desperately needs them."

Export-related outreach to SMEs is conducted by FAS in coordination with the four state regional trade groups (SRTGs[1]). FAS and the SRTGs have a near 40-year history of promoting U.S. agricultural exports. The SRTGs invest USDA market development program funds worldwide to conduct generic promotions for U.S. food products and brand activities specifically targeted to SMEs. USDA funds support SRTG webinars, Export Helplines, seminars, email bulletins, newsletters, trade publication advertising, and one-on-one contact with companies at U.S. food shows that reach SMEs with pertinent trade information.

Milo's Whole World Gourmet, an Ohio company, needed help with export documentation and obtaining market research for their products. After calling an SRTG Export Helpline, Milo's was paired with an export counselor to assist them in getting ready to export. In regard to his experience, Jonathan Leal, Milo's founder and owner stated, "It has been an invaluable resource. Without the Food Export Helpline I'd be lost in a sea of export language and conditions."

NEI PRIORITY: FEDERAL EXPORT ASSISTANCE

Another prime example of our export assistance to SMEs is how we link them to foreign buyers at USDA-supported trade shows. U.S. pavilions at international trade shows create national identity and visibility for U.S. exhibitors. In 2010, USDA supported U.S. Pavilions at 27 international trade shows in 19 countries. At those events, nearly 1,000 exhibitors, most SMEs, reported $179 million in total on-site sales, and over $1 billion in estimated total 12-month sales. Further, participating U.S. companies introduced over 6,000 new-to-market products, and made close to 16,000 serious business contacts. On average, 70 percent of the companies exhibiting in these U.S. pavilions were small companies.

[1] The SRTGs are: Food Export USA – Northeast, headquartered in Philadelphia, PA; Food Export Association of the Midwest, headquartered in Chicago, IL; Southern United States Trade Association, headquartered in New Orleans, LA; and Western U.S. Agricultural Trade Association, headquartered in Vancouver, WA.

For example, in 2011, another of the SRTGs, the Western U.S. Agricultural Trade Association (WUSATA), assisted Linden Nut Company, a small California company, in attending the Food Ingredient China Trade Show in Shanghai. Linden Nut exhibited at the show and connected with dozens of Chinese buyers and distributors. As a result of their participation in the show, the company generated $130,000 in first-time sales.

NEI PRIORITY: TRADE MISSIONS

Agribusiness trade missions (ATMs) to foreign markets led by high-level USDA officials are another example of how we link our producers to foreign buyers. On these missions, participants meet with local entrepreneurs in one-on-one business meetings, host country and U.S. officials, and public/private sector experts as well as participate in onsite visits. In 2010, 29 companies participated in two high level, USDA sponsored ATMs with a resulting export value of $14.8 million.

For example, Acting Under Secretary for Farm and Foreign Agricultural Services Michael Scuse led an ATM in January 2011 to Peru accompanied by 20 representatives from U.S. agribusinesses and business associations; 16 were from small businesses. This was the first USDA-led ATM of its kind to the South American region. With 101 Peruvian and 10 Ecuadorian companies attending the business activities, a total of 338 one-on-one business meetings were held. To date, USDA has recorded $1.9 million in sales of U.S. products to Peru and Ecuador as a result of this mission. Looking at SMEs successes from the ATM, a dairy and vegetable processing company from Illinois recorded over $350,000 in first-time sales to Peru and a meat and poultry company from Georgia recorded over $800,000 in first-time sales and is considering opening a sales office in Peru to be closer to the market. Total sales generated by the Peru ATM are expected to reach $5 million by 2013.

In addition, USDA supports reverse trade missions that bring foreign buyers to the United States. to meet with potential suppliers of agricultural products. These reverse trade missions are particularly valuable for SMEs that may not have the resources to travel to a large number of countries in search of new markets. In 2010, USDA increased the number and scope of reverse trade missions. Our efforts brought 2,734 foreign buyers together with U.S. SMEs as part of more than 270 such reverse trade missions.

NEI PRIORITY: REDUCING BARRIERS TO TRADE

The biggest challenge to agricultural exports continues to be market access, both opening new markets and maintaining existing markets. Together with other Federal agencies, USDA is stepping up efforts to address unjustified sanitary and phytosanitary barriers and technical barriers, as well as tariff barriers to trade.

For example, in 2010, the FAS-administered Technical Assistance for Specialty Crops (TASC) program was instrumental in assisting U.S. potato exporters in overcoming a Thai phytosanitary protocol that prevented U.S. exports from certain states. TASC was authorized and funded by Congress specifically for projects that address sanitary and phytosanitary barriers that prohibit or threaten the export of U.S. specialty crops. Following several months of negotiations between the Thailand Department of Agriculture and USDA, the U.S. Potato Board (USPB) used TASC funding to arrange for Thai officials to visit the United States to review U.S. seed certification procedures, cultivation practices and phytosanitary risk-mitigation measures. Following this activity, Thailand agreed to additional market access that more than doubles – to 14 – the number of states eligible to export seed potatoes to Thailand. Seed potatoes from Colorado, Maine, Michigan, Minnesota, Montana, Nebraska, New York, North Dakota, Wisconsin and Wyoming may now be exported to Thailand. FAS estimates sales of $250,000 to

$500,000 during the first year of the expanded Thai market access, while the USPB estimates that the broader market access could boost exports to Thailand to $1 million in three to five years.

The Administration remains committed to securing Congressional approval of the pending trade agreements with South Korea, Colombia, and Panama, which would significantly reduce tariff and other trade barriers to U.S. exports. The Korea agreement (KORUS), will provide America's farmers, ranchers, food processors, and the businesses they support with improved access to the Republic of Korea's $1 trillion economy and 49 million consumers. Almost two-thirds of the agricultural products that we currently export to Korea would receive duty-free treatment immediately, including corn, soybeans for crush, cotton, cherries, orange juice, grape juice, and wine. South Korea's average current tariff on processed agricultural products is 8 percent, but these products have been subject to arbitrary annual adjustment tariffs as high as 45 percent. Under the agreement, tariffs on nearly all processed products would be eliminated within 5 to 10 years. Nearly all other agricultural commodities would have their tariffs and duties eliminated over a period of time, creating tremendous opportunity to increase our exports to Korea. USDA's Economic Research Service (ERS) projects that on full implementation, U.S. agricultural export gains under KORUS would be over $1.9 billion annually – a 33 percent increase from the 2010 level of U.S. agricultural, fish, and forestry exports to that market ($5.8 billion).

The Colombia Trade Promotion Agreement also contains good news for U.S. agriculture. Currently, no U.S. agricultural exports enjoy duty-free access to Colombia, with most applied tariffs ranging from 5 to 20 percent. But on day one of implementation, U.S. exporters would receive duty-free treatment on products accounting for almost 70 percent of current trade. When implementation is complete, we expect it to increase our agricultural exports by 44 percent – an additional $370 million per year.

U.S. agricultural exports to Panama have been on the rise, growing to over $450 million in 2010. According to ERS, the U.S.–Panama Trade Promotion Agreement would continue this progress with an additional $46 million in annual sales upon full implementation. More than half of current agricultural trade (by value) will receive immediate duty-free treatment, with most of the remaining tariffs on agricultural products to be eliminated within 15 years. Tariffs on 68 percent of Panama's agricultural tariff lines, accounting for more than half of current U.S. trade by value, would be eliminated immediately upon entry into force of the agreement.

CONCLUSION

As Deputy Administrator of USDA's Foreign Agricultural Service, I have witnessed the success of our efforts to improve foreign market access for U.S. products, build new markets, and improve the competitive position of U.S. agriculture in the global marketplace. I am also pleased to report that USDA is making progress in the Administration's goals under NEI. As Secretary Vilsack said, "increased exports mean higher incomes for producers, more opportunities for small business owners, and for folks who package, ship and market agricultural products. They mean a thriving rural America which is good for our Nation as a whole."

This concludes my statement. I look forward to answering any questions you may have. Thank you.

STATEMENT BY:

Mark Rice

President

Maritime Applied Physics Corporation

I thank Chairman Graves, Ranking Member Valezquez, and the members of the House Committee on Small Business for this opportunity to testify on the subject of small business exporting.

Maritime Applied Physics Corporation is a 75-person employee-owned company that I founded in 1986. The company manufacturers 5 defense products that range from unmanned boats to automated marine cranes. We also perform Research and Development contracts for both commercial and government sponsors. We have exported to South Korea, Italy, Scotland, and Germany. Our company has offices in three states and through the recession, we have grown at an annual rate above 20% due in part to exports.

Our company's growth and our ability to hire employees has been significantly helped by the Small Business Innovation Research (SBIR) program, the Small Business Administration Export Loan Guarantees, and the SBA 504 program that is guaranteeing the real estate loans for the expansion of our facility in which we intend to add 30 employees over the next 2 years. The SBIR awards that we have received over the past 25 years have resulted in new products, technology advances, teaming opportunities, and substantial growth.

Our journey to become a successful exporter was not easy. I would like to share one particular story that illustrates a number of the benefits and challenges associated with small businesses that are new to exporting. Our story began in 2000 when we received an email from a business agent in South Korea. The agent had researched our involvement with a particular type of ship rudder under a U.S. Navy program. He indicated that there was a similar application upcoming in South Korea and asked that we arrange for a marketing visit to the world's largest shipbuilder. At this point, our 25 person company had no export experience and we did not understand the laws, customs, or cultural aspects of doing business overseas. We were totally ill prepared to deal with international business. We did not understand the U.S, Government assistance that was available to us nor the government regulations that we were subject to. At the time, it was unclear to us whether we needed an export license and whether this fell under the Department of Commerce or Department of State. We learned through trial and error that this product fell under the Department of State. After several missteps we discovered the US Export Assistance Center in Baltimore and they helped us navigate the export compliance regulations to finally acquire an export license.

With that scare behind us, we travelled three times to Korea, once with the assistance of a State of Maryland program, to discuss the opportunity. On each trip, we were gradually and naively drawn into the next step of the program including head-to-head bidding against a large British firm that was very well supported in the meetings by their embassy. At the end of the third arduous meeting, we were informed that we had won the bidding process on both a technical and cost basis. We were awarded a contract to construct 100-tons of hardware including rudders, hydraulics, and electronics. We came home to celebrate the large win, to find 20 new workers, and to share the news with our bank. Our very large U.S. Bank promptly told us that this deal was too large for us and withdrew the credit lines that were essential to our continued operation.

In this desperate business situation, I approached a friendly local bank and found a very brave banker who took on our company and its new project by pooling his bank's resources with the SBA Export Financing program. 14 months after signing the contract, and nearly 3 years after our first visit to South Korea, we successfully completed the installation of the 100 tons of equipment in the South Korean shipyard under a fixed price contract. While this was a break even contract from a financial perspective, it taught us a great deal. Perhaps the greatest and most lasting benefit of this experience was the international experience and personal growth that it brought to our employees. Were it not for the dedicated people of the Small Business Administration, the US Export Assistance Center in Baltimore, and the Sandy Spring bank, our business would not have survived this experience. The interagency coordination that saved our company did not occur at high levels but rather through the personal connections between Federal officials located in local field offices

As you can see, my first experience exporting required a tremendous commitment of time and resources. The export process can be overwhelming for many small businesses, but with increased coordination and education, we can avoid these issues and increase our exports.

I'm currently a member of the local District Export Council (DEC) and work on a volunteer basis with the Baltimore US Export Assistance Center (USEAC) to help companies new to exporting. Together with the local USEAC and the Manufacturing Extension Partnership, we developed a 3 day course for senior managers of companies who are new to exporting. This course, which has now spread to 25 states, results in an international business plan that each company writes with the substantial technical assistance of local government and private experts. The company can then be worked into the Department of Commerce Tradewinds or Gold Key programs as they are helped to execute their export plan. The participant reviews of this program are extraordinary with a very wide range of companies that are growing their exports around the world.

The local USEACs and the international offices are critical to the growth of small business exporting, and they have helped our company to export to Asia and Europe. Overall, I believe the federal trade agencies do a tremendous service to our nation, but there is plenty of room to improve agency coordination to more efficiently help small businesses.

I would like to conclude with four recommendations:

1. While the interagency coordination in export licensing has improved markedly, the concurrent involvement of Departments of State and Commerce creates confusion and duplication for a business that is new to exporting. I believe that the licensing process should lie in a single agency and that the process of selecting technologies for export control should be streamlined.

2. Export financing, be it through the SBA or EXIM bank, is not well understood by small businesses that are new to exporting. The process often depends upon the actions and recommendations of bankers who also may not be experienced in exporting. The process can be awkward, costly, and daunting. More needs to be done to locally coordinate and promote the federal programs so that small businesses understand the remarkable guarantees that the U.S. Government offers for exporting.

3. As a country, we need to increase the national priority and visibility given to exporting. When working with our peers in South Korea, the entire shipyard workforce understood the importance of exporting. Such is not the case in the U.S. where the new graduates that we hire often have no recognition or interest in markets outside of our borders. While the National Export Initiative has raised awareness at some levels, there is much more to be done with both existing and emerging business leaders.

4. The Department of Commerce has recently reduced its staff in Washington by reassigning staff to field offices. I believe that this trend needs to continue. While field offices have some local authority to tailor programs, the local responsibility and authority needs to increase. The real work that reaches the small businesses is done in the field and the budget priorities and senior personnel assignments should reflect this priority.

I thank the members of the Small Business Committee for their invitation to testify and for their important work in lowering the barriers to business exporting be they regulatory, bureaucratic, educational, or financial. I look forward to your questions.

Statement before the

Committee on Small Business

U.S. House of Representatives

Hearing on "Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?"

Wednesday, July 27, 2011

1:00 p.m.

2360 Rayburn House Office Building

Testimony by:

Mitchell Goetze

President/COO Goetze's Candy Company

Baltimore, MD

Thank you Chairman Graves, Ranking Member Velázquez and other members of the Small Business Committee for inviting me to testify on behalf of our company and highlight some of the issues facing our industry and small businesses today. My name is Mitchell Goetze and I am the President and Chief Operating Officer of Goetze's Candy Company located in Baltimore, Maryland. It is an honor to be here and I look forward to working closely with the committee to ensure that the U.S. government continues to create policies and programs that help small businesses like mine stay competitive and grow our exports.

The Goetze Candy Company was founded in 1895 by my great, great grandfather August Goetze, and has been in my family for 5 generations. We have 100 employees including multi-generations of my family members within our ranks. We manufacture Caramel Creams and Cow Tales in a variety of flavors. These candies are a soft, chewy caramel wrapped around a sweet fondant center, and are confectionary brands enjoyed by many generations. I am also the current chairman of the National Confectioners Association (NCA). NCA has represented the U.S. candy, gum and chocolate industry since 1884, and while NCA includes large multi-national confectionery companies, eighty-five percent of our members are small to medium-sized companies like mine. The majority of our members represent privately owned family businesses and many have been operated within the same family for multiple generations.

The confectionery industry in the US is a $30 billion industry, with international sales last year at $1.25 billion. On average the domestic industry is growing at a rate of 2.8 percent per year, which pales in comparison to international confectionary sales which grew by 6.9 percent last year. Nearly 3000 new products are introduced into the US market each year and many of these innovative and creative products have great export potential. Confectionery businesses employ over 70,000 people in the manufacturing sector, and the job figure reaches 200,000 workers when supplier and distributor jobs are included. There are candy operations in more than 40 states and probably every state in the country when you consider very small independent retail chocolate and candy makers.

While many Americans may regard international trade as the domain of large multinationals, nearly 270,000 small and medium-sized companies export. Within the candy industry, nearly 40 percent of companies export and similar to Goetze, the majority of those are small, with less than 250 employees. In a series of studies released last year, the U.S. International Trade Commission found that small to medium-sized exporting companies outperformed those that did not export. Goetze sells approximately 30 million pounds of product each year, but right now only a little over 1 percent of that product is sold internationally.

We welcome the opportunity to grow our exports, but there are several bureaucratic obstacles to export growth for small confectioners like Goetze. First and foremost, it is very difficult to compete on a price basis with foreign competitors due to the input costs of American manufacturing. Secondly, being a small company, it is hard to find the resources in time, money, and personnel to adequately research global markets and execute sales orders. Finally, there are larger policy issues impacting the confectionery industry that serve as immediate and potential impediments to trade.

I. It is difficult to compete on a price basis with foreign competitors

The Goetze Candy Company manufactures all of its candy in the United States and has been doing so since 1895. We cook and processes candy daily for shipments all over the globe, but current domestic policies hinder our ability to compete globally. In addition to raw material cost increases, energy cost increases, and general volatility and uncertainty in the commodity market, some of our most critical issues are outlined below:

Sugar: Sugar is the most widely used ingredient in the confectionery industry, and the current U.S. sugar policy is woefully outdated. Due to the federal sugar program as mandated in the 2008 farm bill, domestic sugar supplies are restricted by "market allotments" that can never be lower than eighty-five percent of domestic demand. Marketing allotments are legally binding sales limits on sugar processors. As a result of this "domestic content" requirement on the U.S. sugar market, and other provisions of the 2008 farm bill, U.S. companies are forced to pay nearly twice the world price for sugar.

This artificial market situation, combined with the fact that most imported candy enters the U.S. marketplace duty free, creates a major economic incentive for manufacturers to seek co-manufacturing partners abroad to make their candies or re-locate plants and factories outside of the United States. Total U.S. imports grew 43.8 percent from 1998 to 2010, while imports from our NAFTA partners increased an astounding 208 percent. Companies today are moving operations to Canada and Mexico to take advantage of lower business operating costs and avoiding the U.S. sugar restrictions. Given these market dynamics, at Goetze I am fighting to not only maintain my U.S. market share, but to keep manufacturing jobs here in Baltimore.

According to the U.S. Department of Commerce, the sugar program is directly responsible for the loss of thousands of U.S. food manufacturing jobs. Between 1997 and 2009, 112,000 jobs were lost in sugar-using industries alone, and for every sugar growing job in the U.S. saved through artificially high domestic U.S. sugar prices, approximately three American manufacturing jobs are lost.

American sugar producers benefit from the current federal policy, at the expense of U.S. sugar-using companies and consumers. There are only 4,700 sugar farms in the U.S. that benefit from the federal sugar program, but they are supported at the expense of thousands of lost food manufacturing jobs in the U.S. In contrast, there are more than 600,000 U.S. jobs in food industries that use sugar. If the failed sugar policy is not changed, domestic sugar prices will remain at current record highs at the expense of American consumers and workers. By overly protecting sugar growers and processors, we are also jeopardizing the export opportunities for other U.S. agricultural producers, who must face market access barriers in other countries that result from our current sugar policy (e.g. the U.S. denied Australia additional access to the U.S. sugar market in the U.S.-Australia FTA, so South Korea was able to exclude additional U.S. rice market access from the U.S.-Korea FTA).

From our machines to our hairnets, at Goetze we buy everything we possibly can from America. This includes all of our raw ingredients, but the astronomically high price of domestic sugar is making it harder and harder for us to compete. The current 2011 published price for refined sugar is 57 cents per pound, whereas the price for refined sugar available on the world market is 33 cents per pound. Sugar is grown in countries all over the world, but there is a cap on how much can be imported and on how much can be grown in the U.S. It is a remnant from the past—a market totally controlled by the federal government.

One way that USDA has attempted to compromise on this issue it through the sugar re-export program. In this program the U.S. government offers a refund on the difference between the world price of sugar and the domestic price of sugar to manufacturers that export U.S. sugar-containing products. While this program is helpful, it is still cumbersome and adds uncertainty to the price equation. The price uncertainty arises because the reimbursement rate is determined when the claim is submitted rather than when the sugar is purchases. For pricing purposes then, we do not take that discount into account. We may purchase sugar months or even a year out and it's not possible to know and calculate the refund for sugar in exported products. At Goetze, we have not taken full advantage of the sugar re-export program, largely because the inherent uncertainty in the market makes participation a challenge to determine what the return on investment for additional staff time would be. There is a significant amount of paperwork and time involved in achieving the refund. It is a business decision that many other small confectioners find themselves making as well.

Lastly, trade experts believe that current sugar program provisions, such as the 85 percent domestic market content requirement that has been designed to further protect the sugar growing and processing industry, may violate U.S. obligations under the WTO.

In order to be both domestically and internationally competitive, this arcane program needs to be eliminated and allow U.S manufactures access to world sugar. We need U.S. Sugar reform now.

Health Care: The United States spends $2.5 trillion a year on health care with more than 170 million Americans receiving health care through their employer. For small businesses in particular, this expense can often discourage a company from making a new hire. Between the years 2000 and 2010 Goetze's costs to provide healthcare to our employees rose over two and half times the rate we were paying ten years ago; going from \$182.20 to \$465.47 per employee/per month. We pay 80 percent of the total cost, which is expensive for an employer, but in some cases my employees have opted out of our health care plan because they cannot afford the other 20 percent. In many cases, it is the difference between paying that premium, or putting dinner on the table. Adding insult to injury, my employees have also told me that they are opting out because they can "go to the hospital for free".

Unless we address rising health care costs, including abuse of the system, more small and medium sized companies and families will be forced to drop coverage, adding to the millions of Americans without health insurance. The new health care law expands coverage but allows costs to continue spiraling out of control. Allowing businesses to freely pool together and negotiate with health insurers, allowing companies to purchase plans across state lines and competitiveness, and incorporating health information technology (such as electronic prescriptions and medical records) will lower costs for government and businesses while improving choice and competition.

Infrastructure: On average freight costs are roughly 10 percent of operational costs for our industry, and can be a means to create competitive advantages in the marketplace. A vast majority of our product travels via truck across America and often times with refrigerated systems. In the past two years the cost of freight per pound increased 15.5 percent. The NCA is a member of The Coalition for Transportation Productivity (CTP), a group of more than 180 shippers and allied associations dedicated to increasing the federal vehicle weight limit to 97,000 pounds for vehicles equipped with an additional (sixth) axle. Between 2009 and 2011, diesel fuel prices lead to a 34.5 percent increase in our shipping costs. We advocate for heavier, not bigger trucks and believe that by filling the trucks up our freight costs will decrease.

Taxes: As a business owner, taxes never cease to amaze me. The most recent tax that I have become acquainted with is the federal estate tax, also known as the death tax. This tax is applied to the transfer of property upon death, and under current law is set at the rate of 35 percent. On January 1, 2013 the estate tax is set to return to a top marginal rate of 55 percent.

Assets that are eligible for the tax include business property, machinery, investments and personal property such as homes, cars, and furniture. The recipients of the inheritance are liable to pay back the tax, and if they do not have sufficient cash, they are forced to sell what they have just inherited. In the case of family business owners, the tax often exceeds the ability of the family to pay. These heirs are consequently forced to sell off part, if not all, of their enterprise in order to pay the tax.

While the taxation debate is eternal, this tax in particular punishes small family businesses like mine. As a family owned fifth generation company, my grandfather recently passed away. If it were not for my family savings, the structure of our company would have drastically changed, or worse, possibly lost our business. I believe that a full repeal of the estate tax is necessary to keep family-owned businesses in business.

II. Small companies often do not have the resources in-house to manage the practical and strategic aspects of exploring and entering foreign markets.

Promoting federal government services available to small businesses must be increased. The services, expertise, knowledge and dedication from representatives of the Foreign Commercial Service, Foreign Agricultural Service, Small Business Administration and many others are first class, but I can attest that most small businesses don't know about them, nor do they have the first clue as to how to take advantage of these programs.

The Foreign Agricultural Service has been particularly instrumental to the confectionary industry through their many resources including the Market Access Program (MAP). The MAP program is a grant system that provides funds to companies and associations in the agriculture sector in order to increase international sales. The MAP program can fund registration and travel costs for trade shows, various market research, trade servicing, and technical information activities in order to help companies navigate the international marketplace. This public/private partnership is vital to the development of new markets and has been responsible for increased global sales of U.S. confectionery. Costs such as a $10,000 package/labeling change is a nuisance for a big firm; but it can be a show stopper for a smaller company. With MAP assistance companies have more flexibility to pay such costs if they are not using their own funds for issues mentioned above.

MAP funding is currently available to small businesses for five years per market. However, MAP makes no distinction between the export markets of Panama versus China. Panama is a small country and a five year investment in Panama may be all that is needed. We believe the future global marketplace resides in China, India and Russia, and these countries represent several markets rather than just one. If a company invests in one of the four distinct areas of China, they will exhaust the MAP funding program before being able to expand and establish sales in other areas. The MAP program should be amended to split large markets , into submarkets.

Additional help is still needed. Part of doing diligence before entering a new market consists of performing feasibility studies and understanding the market potential for new products. For a small company however, this can be a daunting, time-intensive, and expensive task. Without insights into the market size, competition, distribution channels, and trade structure, a company could be entering uncharted waters and often times end up making bad business decisions because they didn't have adequate information up front. The Foreign Agricultural Service's Global Agricultural Information Network provides excellent information about global markets – sizes, competitors, and regulations and is a good starting place for small companies like mine. This is a fantastic and free service but many companies in my industry are not aware it exists.

The FAS reports are a great launching pad to learn about foreign markets, but then on-the-ground intelligence and assistance is needed to take the process further. The US Department of Commerce has a "Gold Key" program for the manufacturing and service sector that combines both market research and personal assistance that I believe could be a good model for the agriculture sector. This program helps businesses from start to finish, and takes them from market exploration to in-person business meetings that they arrange.

Exporting to a new market requires a commitment and investment that is difficult to make for a small company. At Goetze, I don't have one individual who is solely responsible for growing our export opportunities separate from our domestic sales opportunities. Frankly speaking, I believe to adequately engage in a particular export market, I would need to hire several full-time employees – without a guarantee of success. I would need a dedicated team just to help with the basic steps of obtaining proper permits, registering products, filling out bills of lading, understanding labeling requirements and adhering to ingredient restrictions. Additionally I would need other personnel to understand the market dynamics in terms of retailers, distribution, brokers, etc. At Goetze, I would love to hire more people, but with rising costs and regulatory burdens, these are investment risks that I struggle with.

Acquiring small business loans and credit guarantees continues to be an issue as well. Often times companies require cash in advance or a guarantee or letter of credit. Programs like the Export-Import Banks Global Access are a good start, but need additional marketing in order for businesses in the real world to be aware of them and know who are the partnering banks and financial institutions that can provide those loans.

Finally, it would also be worth considering a flexible approach to the definition of small business for industries like mine who are consolidating and merging. Often times two small candy companies who are not proficient in exporting will merge, and then no longer meet the threshold of a small business. These companies often still operate as two different businesses and product brands but have no expertise in exporting. Once this happens, they are no longer able to take advantage of various resources and programs (like MAP) that can assist in exports.

III. Larger policy issues impact the ability of confectionery companies to export.

Trade Agreements: The U.S. confectionery and chocolate industries have made free trade and maintaining an open US market a key operating principle for over 25 years. America cannot have a growing economy or lift wages and incomes of our citizens unless we continue to reach beyond our borders and sell our products to the 95 percent of the world's population that live outside the United States. The National Confectioners Association estimates that our industry could see more than $14.5 million in increased U.S. export sales, if tariffs were reduced to 10 percent or less to our top 17 export markets.

The industry has maintained this free trade stance in spite of excessive raw material costs for sugar and dairy, which result from U.S. domestic price support programs and tariff and non-tariff barriers that block U.S. access to these commodities at world prices. Our industry pays 2-3 times the world price for these key inputs, incurring hundreds of millions of dollars in additional costs each year. The risk of competing with both sugar prices and severe restrictions on imports needed for an under-supplied domestic market certainly doesn't provide incentives for companies to operate in America.

The National Confectioners Association strongly supports the President's National Export Initiative (NEI) to double US exports, and the most efficient way to do this is through Congressional approval and the timely implementation of the pending free trade agreements with Korea, Colombia and Panama. These high-standard and commercially meaningful trade agreements will help level the playing field, create new market access opportunities, and stimulate job growth. We also see opportunities for candy exports within the Trans Pacific Partnership free trade agreement.

Korea remains the third largest export market for U.S. confectionery products. U.S. exports of most sugar confectionery and chocolate confectionery to South Korea will be duty free in 5 years after implementation of the proposed FTA with Korea. Equally important, U.S. confectioners will be able to maintain U.S. market share over EU confectioners that now benefit from preferential access into Korea as a result of the recently implemented EU-Korea FTA (implemented July 1, 2011). Every day that we wait to pass the FTA with Korea, the U.S. confectionery industry is losing market share to our European competitors.

The U.S.-Colombia FTA will provide some relief to a U.S. sugar-using industry that continues to face an especially tight domestic sugar supply environment after implementation of the new restrictions on sugar imports that were added in the 2008 farm bill. The Colombia FTA provides a minimal amount of additional U.S. sugar market access, but it is nevertheless important to have sugar included in the agreement to further the principle of comprehensive agreements for future bilateral and multilateral trade negotiations. Since the U.S. is a net-deficit producer of sugar, U.S. users of sugar welcome opportunities for access to additional sugar imports. Pursuant to the Colombia FTA, the U.S. will be able to import an additional 50,000 metric tons of sugar above the existing tariff-rate quota (TRQ) in the first year of the agreement, and this amount increases by 1.5 percent for years following.

Panama is the sixth biggest export market for confectionary exports, selling close to $27 million to that country last year. Even though the U.S.-Panama FTA provides for only a small amount of additional sugar imports from Panama, this agreement is important because of the export growth potential. Between 2009 and 2010, confectionary exports to Panama increased 71 percent. Additionally, this FTA will allow Panama to send another 6,000 metric tons of raw sugar to the U.S. and this sugar TRQ increases by 60 metric tons annually for 10 years.

The Trans-Pacific Partnership (TPP) Agreement also offers an opportunity for our sector to reduce direct input costs and remove tariff barriers on our finished products. We hope the TPP can correct the omissions of the U.S.-Australia FTA when it excluded sugar. This regional FTA presents a renewed opportunity to ensure all products are on the table and increased access for all commodities, including sugar and dairy, if achieved. The TPP could eliminate tariffs as high as 30 percent (in the case of Vietnam) on finished confectionery products in some markets to be eliminated in no more than 5 years. In order to compete with the Asia Pacific region, it is imperative that U.S. confectioners gain preferential access via FTAs in the region.

The high cost of inputs in the U.S. along with the added barrier of high tariffs on finished chocolate confectionery and sugar-confectionery in some key markets create even more challenges to the U.S. confectionery sector. As examples, tariffs continue to be high (i.e.20 percent or higher) in key export markets including Brazil, Argentina, India, Egypt, EU (complex tariffs), Thailand, South Africa, Japan, Russia. See NCA's Tariff Comparative Chart for specific examples: http://www.candyusa.com/Sales/TradeRegulations.cfm?navItemNumber=2783. I point this out to show the "double whammy" that U.S. confectioner's face -- high cost of inputs when manufacturing in the U.S. and high tariffs upon export from the US.

Mexico is our second largest export market and $40 million dollars' worth of chocolate and chewing gum were included on Mexico's retaliatory duty list as part of the U.S.-Mexico trucking dispute. We applaud the recent MOU signed between the U.S. and Mexico earlier this month, and look forward to resuming normal trade conditions with Mexico. It is incongruent with the President's NEI to lose the benefits of NAFTA with one of our largest and most important trading partners. After signing the MOU, duties on chocolate and chewing gum into Mexico were immediately reduced from 20% to 10%; however, we're still paying 10% duty to a market where we have benefitted and made business decisions based on duty free access for 20 years. We urge Congress to finish resolving the trucking dispute and do not allow politics to interrupt and damage our important trade relationship with Mexico.

Non-Tariff Barriers (NTB's): NTBs are especially harmful to smaller companies because they can intimidate companies from competing in the international market place, and they add to fixed costs.

Sulfuryl Flouride (SF): is currently the only known fumigant used on imported cocoa beans. The EPA is proposing to phase out SF due to health concerns about excess fluoride exposure in some populations. Removing SF use as a fumigant on cocoa beans will not address the health risks posed by exposure to fluoride, as the major contributors of fluoride exposure are drinking water and toothpaste. U.S. chocolate manufacturing facilities rely on imported cocoa beans that require SF fumigation. This is a critical issue for the cocoa processing industry, which is also a part of NCA's membership, and losing SF may mean moving jobs off shore and importing semi-finished chocolate into the U.S. It will also create higher input costs for our domestic chocolate manufacturers and confectioners like Goetze that use cocoa ingredients. The NCA has submitted comments to the EPA urging the agency to consider alternative administrative procedures. Nonsensical decisions like this by government agencies have real consequences that will ultimately affect the price of our products and again, make it more difficult for us to compete globally.

Importance of science-based food policy and U.S. leadership: Our industry is also concerned with a number of export markets that have proposed standards for cocoa, chocolate and confectionery that are not in line with the Codex Alimentarius (standard system). When international standards are proposed or revised, they should be in line with Codex standards which protect the health of consumers and ensure fair trade practices in the global food trade. The U.S. must continue to play a strong leadership role within Codex to assure a rational, science-based approach is maintained with international standards.

One market that has largely virtually been eliminated for U.S. confectionery exports is the European Union and this is due primarily to non-tariff trade barriers. The EU requires unique labeling of products containing certain artificial colors and other labels if ingredients are derived from genetically modified plants. Considering that U.S. corn and sugar beets are grown using modified seeds and that corn sweeteners and sugar are basic ingredients of candy, most U.S. produced candy would require special labeling in the EU. These requirements are clearly inhibiting US exports, and other countries in Asia and the Middle East have threatened to follow EU's lead.

We appreciate the role FAS and FDA has played in helping to establish science and risk based policy approaches to global regulation and urge their continued engagement on these important issues.

IWG: The Inner Agency Working Group (IWG) is comprised of USDA, FDA, FTC, and CDC and has proposed a set of voluntary marketing guidelines aimed at children and adolescents that could dramatically impact how we do business domestically and lead to the development of detrimental international standards. The goal of the guidelines is to limit the type of products that children and adolescents are exposed to in order to combat childhood obesity.

Goetze and NCA's other member companies support responsible advertising and marketing, especially when it comes to children. The industry has demonstrated this commitment over the last five years. The largest confectionery companies in the U.S. have stopped advertising candy to children under the age of twelve.

The IWG Proposed Guidelines are over reaching. The nutrition criteria along with the age groups and scope of marketing activities they cover do not acknowledge candy's unique role in the diet. As virtually no candy could meet the proposed nutrition criteria and reformulation is not a reasonable option for the candy sector, the entire confectionery category would be subject to the full scope of marketing restrictions –thereby causing significant and damaging changes to the industry without any evidence of change.

We know that recent studies have shown that 60 percent of today's children don't meet average fitness standards. Goetze's is concerned about this trend. Only two to three percent of calories in the average American's diet come from candy. Eaten in moderation, Caramel Creams® and Cow Tales® can fit perfectly with a healthy diet and lifestyle. Michelle Obama's "Let's Move" campaign is a good example of responsible consumer practices and a balanced diet, which we support. With activity, candy and treats can be consumed in moderation.

Given the uncertainty of the effectiveness of these guidelines and their ability to harm the business practices and traditions of the candy industry, NCA has requested the IWG conduct a study to test the impact of the proposed guideline prior to requesting industry participation.

Conclusion: Owning and running a small confectionery company in this day and age is as challenging as ever. As you have heard from my colleagues on this panel, there are many bureaucratic obstacles to overcome in order to break into the international marketplace and grow exports. I would like to say that our National Export Strategy is working, but with the ever-growing obstacles and challenges to businesses, I am not sure that I can. I believe that we can grow U.S. manufacturing and find customers all over the world, but only if we consider a careful balance of reduced domestic regulatory burdens, smarter supply management, increased marketing of government resources, and have the policies in place that allow our products to enter new markets.

When a product is labeled "Made in America", that message resonates around the world. Our industry has a long tradition of making fun, delicious candy for everyone to enjoy. We are also more productive than we have ever been, and continue to make the highest quality products in the world. Candy is a critical piece of Americana, and with more than 65 percent of American candy brands loved by consumers for over 50 years, our reputation precedes us. With these traditional brand recognitions and the most innovative new candies coming to market, the confectionery industry is primed for exploding into the international marketplace.

Despite the many challenges I have outlined above, The Goetze's Candy Company and the U.S. confectionery industry have the will to compete internationally. Investing in the export potential of America's small and medium-sized businesses could bring dramatic gains and stimulate the economy. Like my fellow small and medium size confectioners, Goetze is a true American success story. I would love to share this story and Goetze caramels with the rest of the world.

Thank you for your time, I look forward to answering any questions you may have.

Statement by Maurice Kogon
Before the
U.S. House of Representatives Committee on Small Business

Impact of U.S. National Export Strategy on Small Business

July 27, 2011

Chairman Graves, Ranking Member Velasquez, and Committee members. Thank you for the opportunity to testify here today.

My name is Maurice Kogon. I have worked in the international trade field for over 50 years – at the federal and state level, with a U.S. multinational, as a small business owner, and as an educator.

My testimony today makes three basic points about the National Export Initiative (NEI) – specifically, does it adequately meet needs of the thousands of small businesses that are or could be exporting. In my view, it is not yet as relevant or as helpful as it could be to meet needs of this vital constituency.

My first point. The NEI has an ambitious goal to double exports in five years, but not a strategy that will get us there. The strategy relies too much on global economic factors we cannot control, while the programs we can control are not focused enough on the small businesses that most need export help, and not enough on the services they most need at critical early stages. The NEI's export promotion programs are basically only what the government can afford, not on what can best help small businesses at each stage of their export development. Far too many small businesses with export potential are left to fend for themselves. Claims that the NEI is "on pace," based on the 17% export increase in 2010, belie the reality that most of that gain came from recovery in world import demand and would have occurred anyway.

My second point is that the NEI does not adequately address what I see as our national export "paradox," – that *while we are a very large exporting nation, we are not a nation of exporters*. Roughly 85% of U.S. manufacturers do not export at all, and over half of the 15% that do export sell only to Canada or Mexico. The NEI addresses the half of the 15%, the "low-hanging fruit," but essentially writes off the far larger group of potential new exporters in the 85%. U.S. exports would increase significantly if we could get more of the 85% into the export base. For that, in my view, we need to go beyond a low-hanging fruit strategy. We need what I call a "fertilize the tree" strategy to "optimize" exports; that is, to increase exports to our full national potential and capacity as a nation, at whatever level that might be. An optimization strategy would focus not just on getting existing exporters into new markets, but would also cultivate the far larger group of potential new exporters that could most contribute to long term export expansion. It would have two interrelated goals:

First, we need to increase U.S. exports as a percent of GDP. Although we are the world's third largest exporter, our exports-to-GDP ratio lags well below our major world competitors. For example, Germany is at 45%, we are at just 13%. Our competitors, with comparable economies and competing in the same global marketplace, are more fully exporting to their capacity. We have the potential to close this gap. We are after all the manufacturing powerhouse of the world and the world leader in innovation and technology. And, most of our manufacturers are not even exporting yet.

Second, we need to increase the number of new exporters. We could come much closer to our national export potential if more non-exporters were to start exporting. We now have roughly 280,000 actual exporters in the U.S. As noted, they account for only 15% of all manufacturers. Many of the 85% non-exporting manufacturers may well have export potential. Why? For one reason, they have succeeded in the world's toughest market, our own, against the same competition they would face in foreign markets. If they can sell competitively here, they have the potential to export to at least one, or perhaps even many, of the roughly 200 markets outside the U.S.

If my suggested priority on new exporters makes sense, why is the NEI so narrowly wedded to the low-hanging fruit? The reason is, and I agree, they can't afford to do both. Limited resources should be reserved for the export-ready firms able to make the best use of their trade promotion and matchmaking services. But that misses the larger point. The new-to-export sector is too important to ignore or write off. The solution is obvious. It is not to stretch federal resources further, but to collaborate with non-federal partners well equipped to fill the gap.

This gets to my **third and final point** -- the need for systematic collaboration with non-federal partners. The vast network of state and local export assistance organizations could be part of an overarching export optimization strategy to both fertilize the tree and pick the low hanging fruit. Centers like mine and others are at the grass roots of potential new exporters. We have the expertise and resources and are ready and willing to engage in a meaningful collaboration.

Unfortunately, I don't see a federal mindset, plan or mechanism to collaborate. The NEI is more concerned with internal collaboration within the TPCC. It gives abundant lip-service to collaboration with others, but not much else. Here's what real collaboration would look like in my view. Non-federal partners would have a seat at the TPCC table. They would help plan and develop a holistic export optimization strategy that shares data on potential and existing exporters, jointly recruits prospects, reconciles programs to reduce wasteful duplication and overlap, and coordinates the seamless delivery of complementary services to both new and existing exporters.

Before concluding, let me emphasize that my concern is with federal strategy, not with the actual programs. They do increase exports, and do have a high ROI to justify their cost. The only problem is that they don't go far enough and don't meet enough small business needs.

Thank you again for the opportunity to share my thoughts. My written submission elaborates on all my points today, including specific needs of small business through all export stages, from start-up to getting paid.

Matrix 1

Export Need	Purpose/Nature of Assistance	Assistance Tools/Resources	Team Partners
Build Export Capacity			
Improve Competitiveness			
Situation analysis/SWOT	Assess client production processes, management systems/controls, and business practices. Identify structural strengths and weaknesses. Recommend improvements to increase global competitiveness.	Needs/competitiveness assessments	SIDO, ITACs, MEP, SBDCs, SCORE
Solidify Fundamentals			
Production processes	Provide advice//training/technical assistance to increase productivity.	Advice/training in continuous improvement (lean manufacturing, Six Sigma, TQM, etc.)	MEP, SCORE
Business practices	Provide entrepreneurial advice/training to improve/adapt business practices for export.	Advice/training in SWOT analysis, business planning, best entrepreneurial practices	DECs, SBDCs, SCORE
Operating capital	Provide or guarantee loans to commercialize high-tech prototypes for export and for pre-export working capital.	Export development loans, pre-export loans/guarantees.	VCs/Angels, SBA, Exim, FAS
Develop Export Readiness			
Assess export potential & readiness	Assess export market potential for client products and adequacy of company's commitment, resources, know-how, and marketing methods. Identify strengths and weaknesses and recommend improvements to increase export potential and readiness.	ECC/CITD Export Readiness Assessment, CORE, Others?	SIDO, ITACs USEACs, FAS
Enhance export potential & readiness	Provide advice/training to increase product competitiveness/receptivity abroad (pricing, quality, branding, adaptability, etc.). Provide advice/training to increase company's export motivation, confidence, and competency (knowledge, skills and abilities.	How-to-export counseling; export guides, seminars and courses	SIDO, USEACs, ITACs, DECs, colleges, training organizations
Get/Use Help			
Trade assistance network	Provide seamless client service through collaborative export assistance network at all levels (governmental, academic, NGO, private, etc.). Refer clients to partner services as needed.	Partner/collaboration agreements defining roles, available services, and client entry and handoff points.	USEACs, FAS, Exim, SBA, SIDO, ITACs, WTCs
Trade assistance resources	Provide seamless access to needed sources of trade funding, information, contacts, etc. Refer clients to sources as needed.	Compatible client databases & directories; shared access to partner Web sites.	USEACs, FAS, Exim, SBA, SIDO, ITACs, WTCs

Matrix 1

Export Need	Purpose/Nature of Assistance	Assistance Tools/Resources	Team Partners
Develop Export Markets			
Identify Best Markets			
Market research/analysis	Conduct research to identify/assess best markets, market segments, and market dynamics (business customs/practices, competition, market access, etc.).	CITD/BMRs. Flexible Market Research. Partner Web sites and other sources of market targeting data (trade statistics, market surveys).	USEACs, SIDO, ITACs
Develop Entry Strategies			
Market Strategy Planning	Assist clients to develop export market plans (EMPs) that include recommended strategies, actions and budgets for distribution, pricing, promotion, and product adaptation in each target market.	EMP templates. Partner Web sites and other sources of market entry/marketing mix data (CCGs, market surveys).	USEACs, SIDO, ITACs
Implement Entry Strategies			
Find Partners (Buyers/Distributors)	Disseminate trade leads; refer clients to on-line trade lead systems. Help clients find interested and qualified overseas agents/distributors/other partners. Help clients screen buyers and agent/distributor prospects and protect themselves in partner agreements.	TOP, FAS & other trade-lead sources. IPS, Gold Key, SIDO, & other repfind services. ICP & commercial credit reporting services. Qualifications checklists & sample partner agreements.	USEACs, FAS, SIDO, ITACs, WTCs
Promote Export Sales	Assist clients to increase global and/or target market exposure for their company and products by helping them develop/globalize their Web sites; list in export directories/databases, and take part in trade events that reach foreign buyers/distributors.	CNUSA, Export Yellow Pages & other exporter databases/directories. Overseas & IBP trade shows. Outbound & inbound trade missions, catalog shows, FUSE, single company promotions, etc.	USEACs, FAS, SIDO ITACs.
Market Promotion Financing	Provide access to financing for market development, promotion, business travel, trade shows, etc.	FAS programs (MAP); SBA Export Express. Others?	FAS, SBA. Others?

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Matrix 1

Export Need	Purpose/Nature of Assistance	Assistance Tools/Resources	Team Partners
Make Sales/Get Paid			
Close the Deal			
Respond to inquiries	Assist clients to develop materials for timely/professional response to export inquiries	Export counseling/seminars & workshops. Sample response letters.	USEACs, SIDO, ITACs
Quote prices (INCOTERMS)	Advise clients on techniques and proper use of INCOTERMS to quote prices.	Export counseling/seminars & workshops. Sample price calculation/quote sheets. Sample Proforma invoices.	USEACs, SIDO, ITACs
Negotiate sales terms	Advise clients on options & pros/cons of possible price, credit, payment & delivery terms to meet the competition. Advise clients on techniques for negotiating terms and closing deals.	Export counseling/seminars & workshops.	USEACs, SIDO, ITACs
Finance Sales/Get Paid			
Payment methods/services	Advise clients on the range and pros & cons of export payment options, from cash in advance to open account. Advise clients on range of export financing options, including pre-export, transaction and post-transaction financing. Advise clients on risk mitigation options and services, including export credit insurance and factoring.	Export counseling/seminars & workshops. Export finance guides.	USEACs, SIDO, ITACs, SBA, SBDCs, Exim, commercial banks
Payment sources/aids	Refer clients to sources of export finance and risk mitigation services. Assist clients to prepare applications for export financing. Work to simplify procedures and expedite processing of export financing applications.	Export Working Capital Guaranty Programs, Medium-and long-term export financing. SME and environmental export financing, Export credit insurance. Foreign buyer financing. Countertrade. Factoring & forfaiting	Exim, SBA, OPIC, Commercial banks, export credit insurance brokers, factors/forfaiters

Matrix 2

Illustrative Seamless Service Flow

1	2	3	
Export Assistance Activity	**Coordination Facilitators**	**Start Point**	**Hand-Offs/Referrals To**
Initial client intake	Common or compatible intake forms	Any partner	Other appropriate partner(s)
Create client files/databases	Common or compatible databases	Any partner	Other appropriate partner(s)
Assess needs for assistance	Compatible/shared surveys	Any partner	Other appropriate partner(s)
Competitiveness assessments	Standard outline	Client's choice or as partners may agree	MEP –type organizations
Export readiness assessments	Standard diagnostic tool	Client's choice or as partners may agree	CITD/ERA
Export counseling/consulting	Complementary topics covered	Client's choice or as partners may agree	CITDs, USEACs, SIDOs, ITACs, ISBDCs
Export training	Complementary training	Client's choice or as partners may agree	USEACs, SIDOs, ITACs, ISBDCs
Market research	Access to partner databases	Client's choice or as partners may agree	USEACs, SIDOs, ITACs, ISBDCs
Market planning	Standard template	Client's choice or as partners may agree	USEACs, SIDOs, ITACs, ISBDCs
Marketing & promotion	Joint planning/marketing	Client's choice or as partners may agree	USEACs, FAS, SIDOs, ITACs
Trade leads	Shared access to leads	Client's choice or as partners may agree	USEACs, FAS, SIDOs,WTCs
Matchmaking/partnering	Based on markets covered & costs	Client's choice or as partners may agree	USEACs, SIDOs, ITACs, WTCs
Business travel facilitation	Based on markets covered & costs	Client's choice or as partners may agree	USEACs, SIDOs, ITACs, WTCs
Regulatory compliance			Enforcement agencies, Int'l lawyers
Documentary compliance			Freight forwarders
Cargo delivery			Freight forwarders, carriers
Marketing financing			SBA/SBDCs, USEACs, FAS,
Financial assistance			SBA/SBDCs. Others?
Pre-export working capital			Exim, SBA, commercial banks
Transaction financing			Exim,
Export credit insurance			Exim Credit insurance agencies

SIDO STATE INTERNATIONAL DEVELOPMENT ORGANIZATIONS

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Testimony of Wade Merritt,
Vice-President, Maine International Trade Center
Vice-President, State International Development Organizations

Committee on Small Business, U.S. House of Representatives
"Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?"
July 27, 2011

Chairman Graves, Ranking Member Velazquez, members of the Committee – thank you for inviting me to testify today. My name is Wade Merritt and I am the Vice-President of the Maine International Trade Center and I currently serve as Vice-President of SIDO, the State International Development Organizations. SIDO is the premier association of state trade and export promotion agencies in the United States and it represents the interests of state international economic development programs. We have worked with many federal partners in attempts to increase awareness of small business needs and pave the way for the successful attainment of the President's National Export Initiative (NEI). I am very pleased to be able to share this message with the members of the committee.

What I would like to do this afternoon is just take a few minutes to give you a little more background on what states do to promote exports, our view of the support needed from the federal government for small business' success, and our recommendations for improvements needed to successfully fulfill the goals of the National Export Initiative.

Nationally, SIDO states currently boast a domestic staff of 300 with a total budget of over $83 million for international development. That's not a lot when compared to the overall budget for the U.S. Commercial Service, but our overhead is lower and we've become experts in doing much more with much less.

Studies have shown that investing in export promotion is a reliable way to ensure a stable economic recovery, and is one of the best, most impactful ways governments can assist companies in making sales and growing their employment base. It is well-documented that companies which export their products grow faster, are more profitable, and pay higher wages to their employees. By doubling American exports, hundreds of thousands of new, higher wage jobs will be created for the citizens of our country. Following that logic, in his 2010 State of the Union address President Obama set as a goal that the nation's businesses should double their exports by 2015 – and that small and medium sized enterprises (SMEs) should lead the way. It is an ambitious goal that requires robust export development programs at both the state and federal level.

In 2010, nearly half of all U.S. business profits came from exports. A 2006 World Bank study demonstrated that, on average, every $1 spent by countries on export promotion yields $40 in new exports. The study also found that countries with low levels of export promotion spending generated higher rates of return ($60 or more) when they increased their export promotion spending, but at a certain point, nations will experience diminishing levels of return (such as most OECD countries). This is an important point as our country's export promotion spending is much closer to that of developing country levels (as a percentage of our total exports) than to OECD levels – simply said, there is a lot of room to grow and the time to take advantage of this opportunity is now.

SIDO's numbers show that this study has merit – the state of Pennsylvania, which boasts a healthy trade promotion program and has resources to regularly measure its own successes, reported 2010 returns at nearly 90:1 on the dollar. With numbers like these, investing in State and federal programs to promote should be an obvious priority and yet program budgets and resources are being cut at a time when we need them the most.

The numbers are sobering – in just two years, state support for trade development and investment attraction has dropped by 20% - from $103 million in 2008 to just $83 million in 2010 (up from $70 million in 2009). In 2009, 84% of states suffered drastic cuts to their budgets and 69% of states saw additional cuts in 2010. Cuts have ranged in size from 5% to 66%, and have directly affected the services offered to SME exporters because of the resultant staff reductions, foreign office closures, and other service eliminations.

While states rely on the federal government for market research information, there are many services that states provide to small businesses that the federal government does not offer. Some states even offer grants to cover the cost of company participation at trade shows and other market promotion events, and although there is massive aid for agricultural exports, there is no program in place to assist manufacturers. Many states have partnered with federal government agencies in their domestic operations, offering subsidized office space and in-kind program assistance to local U.S. Export Assistance Center staff to provide an integrated set of services to small businesses. The most basic of services, business to business matchmaking, is offered by the US Department of Commerce as well as some state contractors. However, Commerce's "Gold Key" matchmaking program is constantly under threat of massive fee increases that would put its cost out of the reach of most SMEs.

The states, working collaboratively with the federal government, are ready to assist in achieving the objective of doubling U.S. exports. However, as state trade offices are being called upon to provide ever higher levels of service, the current fiscal crisis has prompted governors and legislatures to make difficult budget choices. State governments are having to choose short-term budget fixes over proven long-term solutions – and, as I mentioned earlier, forgoing an investment with proven 40:1 returns for every dollar spent on trade promotion just isn't a choice that states should have to make.

As part of the 2010 Small Business Jobs Act, Congress authorized funding for a 3-year State Trade and Export Promotion program through the US Small Business Administration that is now poised to provide much-needed support for state trade offices and exporters. While the roll-out of the program has seen several delays as metrics have been revisited and the unexpected task of re-formatting and re-submitting proposals has been burdensome to limited state resources – and I can attest that I have personally been wrestling that burden while simultaneously preparing this testimony - the program has the potential to truly revitalize American exports. Simply stated, once STEP program funds are awarded, states will quickly be in a position to enhance the services and assistance available to small and medium-sized exporters.

SIDO strongly believes that there are several export promotion priorities that should be addressed and implemented in order to maximize the chances of success for the NEI:

A revitalized US Commercial Service (USCS) will be essential to deliver on the NEI's commitment. Even the best funded state trade program can't provide global market coverage and all states depend on the worldwide network of Foreign Commercial Service posts to provide their businesses with market access in countries where the state has little or no independent resources. In the case of small states like Maine that have no overseas representation, Commerce's presence in foreign markets is absolutely key to our SME's successful market entry. Adequate funding must be provided to USCS international operations to assure that timely support is available to assist U.S. companies. Small and medium sized firms hold the largest potential for export expansion, but also require the highest level of overseas support to enter new markets and diversify their exports.

Over the last decade numerous overseas USCS positions and commercial offices abroad have been eliminated. SIDO believes that adequately staffing foreign commercial posts and providing them with the tools to effectively perform their mission should be among the highest priorities of U.S. Department of Commerce. Especially critical, in our opinion, will be filling and retaining the locally engaged staff (LES) positions that have been eliminated or allowed to remain vacant for budgetary reasons. These specialists are people from the local area who are engaged in their local business communities, speak the local language, and are invaluable to inexperienced exporters trying to reach an international market.

State programs are well-positioned to compliment federal promotion efforts overseas by providing on-the-ground, practical assistance to US exporters. Further reductions in the USCS budget and overseas USCS personnel deployment would adversely affect state trade programs and have a devastating effect on the ability of U.S. small and medium producers to export their products.

Traditional markets will be essential in doubling exports. Exporters will need to access those markets that historically and currently are providing the best opportunities for success for U.S. exporters. While accessing emerging markets for U.S. products is a worthwhile objective, most SME exporters will find the best opportunities in traditional markets in such as the European Union and the Western Hemisphere. In recent years, key commercial posts in markets where our exporters have enjoyed a comparative advantage (such like Hamburg, Barcelona, and Amsterdam) have been closed. Canada, our largest trading partner and often the first export market for SMEs, has been gutted and has just one US commercial officer responsible for the entire country. Our support in these markets should be expanded, not reduced, and these offices should be reopened and staffed as soon as possible.

Pricing for USCS services, such as the Gold Key and International Partner Search Program, should be maintained at the current rate which is affordable for SME exporters. States pay for the services we receive and some states use up to a third of their trade budget each year to subsidize federal trade promotion services for their companies. In fact, the state of Florida is the single largest consumer of "Gold Key" trade promotion services in the country. These programs represent some of the tools most frequently used by SME exporters to enter new markets, Increasing the cost would be counterproductive to the NEI. In addition, implementation of a program offering financial support in the form of export grants for U.S. manufacturers, with equivalent resources to U.S. Department of Agriculture's Market Access Program, should be introduced to assist American manufacturers to enter the export business and/or diversify their exports.

Increased support for the Small Business Administration's Office of International Trade is essential to the success of the STEP grant program. The federal government has provided the monetary resources necessary for SMEs to achieve the NEI's goal of doubling exports – now it's necessary to fulfill that commitment by affording the SBA the resources it needs to name a full-time associate administrator for international trade and supplement its staff with the numbers necessary to roll out this pilot program successfully and efficiently.

An enhanced partnership between the USCS and state trade agencies to seamlessly deliver customer-focused services is critical to expanding the pool of successful U.S. exporters and promoting market diversification among existing exporters. Currently, there is no incentive for USCS officers in the field to share information or successes stemming from collaboration with state trade officers. In order to better coordinate efforts and avoid duplicative services, there needs to be a mechanism for sharing metrics, tracking successes and identifying areas for improvement The USCS and SIDO members, working together, can make a powerful team for providing better service delivery to mutual customers, the American SME, and potential exporters of products and services.

American exports create and sustain millions of jobs in the U.S. and current prospects for expansion are excellent, but a collaborative approach that combines resources at the federal and state levels in a systematic and efficient manner is the only way the NEI will be successful. As our states are required to balance budgets annually, we are all too aware that federal budget reductions will require some painful decisions, but at a time when the Administration has rightly shone a spotlight on exporting products and services as a key to future prosperity, we would prefer that our federal partners look to us to find efficiencies and use those savings to expand services where possible, rather than make cuts in what may seem like a vacuum, but is actually a vital piece of a larger system.

Thank you, members of the committee, for allowing me the opportunity to speak – I welcome your questions.

Hearing: "*Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?*"
July 27, 2011

Follow-up Questions for Administration Officials

Mr. Suresh Kumar
Assistant Secretary
U.S. Department of Commerce, Commercial Service

Ms. Marie Johns
Deputy Administrator
U.S. Small Business Administration

Mr. Christian Foster
Deputy Administrator
U.S. Department of Agriculture, Foreign Agriculture Service

1. The National Export Strategy stated the Trade Promotion Coordinating Committee has developed a standard set of metrics to track the performance of the federal agencies. What is your primary assistance measure within your agency? And how do we know for sure your three agencies are not double counting and taking credit for the same service?

2. One of the top trade obstacles voiced by small businesses is understanding the variety of foreign and domestic regulations. I noticed none of the 17 policy initiatives in the National Export Initiative focuses on this issue. How is your agency working to help small businesses navigate the regulatory challenges? And which agency is best positioned to have this responsibility?

3. When measuring performance, do you have protocols in place that measure the return time for certain services for small businesses? And if so, how have you worked to improve the rate of return?

4. Your agencies spend a lot of taxpayer dollars on technology and IT systems. How are you using technology such as videoconferencing and webinars, to increase efficiency reach and assist more small businesses? And do you coordinate your IT systems and share electronic resources among agencies?

Mr. Foster and Mr. Kumar

5. Your agencies along with the State Department have offices overseas to provide direct and local assistance to U.S. exporters. How do you work together, and with the State Department, to divide and conquer your resources, in an effort to reach as many markets as possible?

Chairman Graves
Committee on Small Business
Questions for the Record
Mr. Christian Foster
Deputy Administrator
U.S. Department of Agriculture, Foreign Agriculture Service
Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?
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Rep. Bill Owens (NY-23)
Committee on Small Business
Questions for the Record
Mr. Mitchell Goetze
Goetze's Candy Company
Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?
July 27, 2011

1. In my district we have a fairly successful small business candy maker, which I have had the opportunity to tour, that has two locations in Croghan and Carthage, New York. As a candy store owner yourself, can you tell me what percentage of your operating costs are devoted to purchasing basic commodities such as sugar and milk? Have you seen much price fluctuation for these goods since the economic crisis began in 2007?

Rep. Bill Owens (NY-23)
Committee on Small Business
Questions for the Record
Ms. Marie Johns
Deputy Administrator
U.S. Small Business Administration
Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?
July 27, 2011

1. How many separate programs are there within SBA to assist small businesses in exporting and how much funding did each of these programs receive in the previous fiscal year, including the Office of International Trade?

2. What is the amount of exports generated by small business that have received SBA assistance?

Chairman Graves
Committee on Small Business
Questions for the Record
Ms. Marie Johns
Deputy Administrator
U.S. Small Business Administration
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Chairman Graves
Committee on Small Business
Questions for the Record
Mr. Suresh Kumar
Assistant Secretary
U.S. Department of Commerce, Commercial Service
Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?
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5. Your agencies along with the State Department have offices overseas to provide direct and local assistance to U.S. exporters. How do you work together, and with the State Department, to divide and conquer your resources, in an effort to reach as many markets as possible?

Monday, August 22, 2011

Rep. Bill Owens (NY-23)
Committee on Small Business
Washington, DC

Care Of: Caroline Rabbitt
House Committee on Small Business
Caroline.Rabbitt@mail.house.gov

I want to thank the Committee on Small Business for the opportunity to testify on July 27, 2011. I am in receipt of your question for the record and my response to such is as follows.

Our commodity costs can range between 22%-35% of our product cost. So roughly 1/3 of our product costs are directly driven by the input costs associated with raw materials like sugar and milk. Our commodity input costs are a critical component to company profitability, which drives our ability to be able to offset other manufacturing and employee costs. It is also important to note that not only have costs risen by an alarming rate over the last few years, the extreme market VOLITILITY has added an additional component to the purchasing of raw materials. VOLITILITY, based on crazy market conditions, plays a significant role in our ability as a manufacturer to be able to purchase our materials based on sound market information. We are often being forced to make purchasing decisions as a result of fear, anticipation, and gut reaction in order to book forward "coverage", and hopefully avoid even further run-up in these costs. We believe that a significant amount of this VOLITILITY is driven by speculators that NEVER TAKE TITLE TO THE PHYSICAL PRODUCT. These often uncapped and loosely regulated investment positions in our food supply have no positive impact on the cost of food, and inhibit US manufacturers' ability to compete in the marketplace against imported foods. This inability for US manufacturers to compete hurts job producing operations here in the U.S. and creates an environment that is just not competitive. The other result of these uncontrollable input costs is a sharp increase in the cost of food to U.S. consumers. We manufacturer 100% of our candy exclusively in Baltimore, MD and do not have the luxury of cost averaging our input costs down by producing components or purchasing materials overseas. Small businesses like mine maintain and create jobs here at home.

To be specific here are some major raw material input costs and their percent of increase over the last several years. The seventh year used is 2012, as we have already booked some commodity purchases in this period, and are fairly confident where our costs will be.

Goetze's Candy Company, Inc. 3900 East Monument Street Baltimore, MD 21205-2980 Phone: 410-342-2010 Fax: 410-522-7681 / www.goetzecandy.com

Ingredient	Seven Year Change %
Flour	108.20%
Sugar	39.20%
Dextrose	43.00%
Soybean Oil	117.50%
Fructose	65.40%
Corn Syrup	65.50%
Milk	67.50%
Whey	50.50%

So I would ask you, based on the increases above for only our major raw materials how are small food manufacturers in the United States supposed to be able to compete not only with the large multi-nationals, but against imported foods that are manufactured overseas without the hardships we face here at home? You wonder why U.S. manufacturing jobs have disappeared......just look above.

I am available for further questions and again appreciate the opportunity to share our story.

Best Regards,

Mitchell Goetze (sop)

Mitchell Goetze
5th Generation Confectionery Manufacturer
President & Chief Operating Officer

JOHN BODE LLC
100 4th Street, NE
Washington, D.C. 20002

August 8, 2011

BY ELECTRONIC MAIL

Honorable Sam Graves
Chairman
Committee on Small Business
House of Representatives
Washington, D.C. 20515

Dear Chairman Graves:

My client, the American Fruit and Vegetable Processors and Growers Coalition, thanks you and your colleagues on the House Committee on Small Business for your focus on the importance of building job opportunities for American small businesses.

Please find enclosed testimony of Ben Puehler, President of McDonnall Harvester and Parts, Inc. submitted for the record of the Committee's July 27, 2011 hearing on "Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?" The testimony expresses small business support for H.R. 2675, the Farming Flexibility Act of 2011, legislation recently introduced by Representatives Ribble, Walz, Pence, Baldwin, and others to allow farmers to opt out of the farm programs on an acre-for-acre basis to grow fruit or vegetables for processing.

This bi-partisan legislation would reduce federal spending, increase American jobs and competitiveness, while allowing environmentally desirable crop rotations.

Thank you for your consideration.

Sincerely,

John W. Bode

Enclosure
JWB:mhh

STATEMENT FOR THE RECORD
MS. MARION C. BLAKEY
PRESIDENT AND CHIEF EXECUTIVE OFFICER
AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA

Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?

House Small Business Committee

July 27, 2011

Introduction

Chairman Graves and Ranking Member Velázquez, thank you for holding this important hearing.

The Aerospace Industries Association of America (AIA) appreciates the opportunity to provide this statement for today's hearing evaluating how the administration and Congress support a critical national security and economic asset: the export competitiveness of the U.S. aerospace industry. AIA represents more than 350 member companies—the industry as a whole has a high-skilled, high-technology workforce of 624,000. We operate as the largest trade organization in the United States that represents space systems, national defense, and civil aviation. Our industry consistently generates America's largest manufacturing trade surplus ($51.2 billion in 2010), but continuing this track record of success cannot be taken for granted.

Why Do Aerospace Exports Matter?

More than a third of the $214.5 billion in U.S. aerospace sales of civil, space, and defense products last year went to overseas customers. In these challenging economic times, it is necessary but not sufficient to highlight that these exports create and sustain high-skill, high-wage jobs. It is equally, if not more critical to recognize that these exports are necessary to sustain and increase the capacity for cutting-edge innovation in the U.S. industrial base. The parts and components used to develop, produce and sustain these systems sold overseas are sourced from thousands of small- and medium-sized companies who use this revenue to invest in their future global competitiveness. We must therefore continue to compete effectively in the international marketplace to expedite our economic recovery and set a future trajectory for even greater economic growth.

Exports help AIA members provide the Americans defending our country and guarding our homeland with the best technology at the best price for the U.S. taxpayer. Exports support technology exchange, allowing our industry to leverage foreign innovation to make our own world-class products even better. Exports also lower unit costs for systems and components. In challenging economic times, overseas sales keep critical production lines open and available to meet the threats we face now and will face in the future.

Aerospace exports also serve as a foundation for building key relationships and a shared future with important international allies and partners. American aviation products and services are at the forefront of providing to the world safe, reliable and environmentally responsible air travel. Our space industry connects the globe, helping us communicate, navigate and explore with other nations. As the United States asks its allies to take on greater responsibility in a shared effort to protect international security and stability, it is imperative that these key partners be equipped with and trained on the appropriate systems and technologies to ensure engagement and interoperability with U.S. and other coalition forces.

Government and Congressional Activity Affecting Aerospace Exports

The value of aerospace exports is certainly not lost on the members of this committee, or on other leaders on Capitol Hill and in the administration. Across all segments of our industry, the biggest asset we have in international competition is the advocacy and support provided by our government on behalf of our companies, large and small. The consistent and sustained efforts of senior leadership in Congress, State, Commerce, Defense, Transportation (including FAA and NASA), Treasury, the Office of the U.S. Trade Representative, the U.S. Export-Import Bank—the list goes on and on—is crucial to ensure a level playing field, opening up markets for U.S. products and winning those sales opportunities—particularly in the face of strong and determined advocacy from foreign governments on behalf of our international competitors.

The Ex-Im Bank in particular plays a critical role in our economy. First, it supports the efforts of American small businesses to export their products worldwide. In 2010 the Bank supported $5 billion dollars in small business exports, a number which the Bank projects to grow in the coming years. Second, they support the manufacturers of high-technology products including aircraft and other high-technology aviation products. The combination of the small number of companies capable of manufacturing these products, along with the current global economic crisis, means that it is essential that our companies are able to compete on a global scale. Foreign companies enjoy Ex-Im Bank-type support from their governments when competing internationally, and it is imperative U.S. manufacturers receive comparable support. In addition, the Bank has generated over $4.5 billion dollars in profit over the last ten years, all of which has been repaid to the Treasury.

All U.S. government agencies should consider the return on investment to our nation's economy when evaluating budget decisions that affect these important functions. The same care must be taken when considering the potentially adverse impacts of "Buy American" policies, visa review policies that create unique barriers for our industry, sanctions, cuts in Foreign Military Financing and other missed opportunities for international cooperation. "Selling American" (in particular the value of our products and partnership) to other countries is worth it, and there is no such thing as too much support or advocacy.

Passage of the pending Free Trade Agreements (FTAs) between our close allies South Korea, Columbia, and Panama will also remove obstacles to trade. South Korea currently stands as the ninth largest market for U.S. aerospace exports—but that may not remain true for long. While the U.S. delays implementation of the FTAs, the European Union and Canada have moved forward with their Korean and Colombian free trade agreements. Reducing barriers to trade ensures that U.S. industry remains globally competitive.

Export Control Modernization

Presuming our industry is able, with the help of the U.S. government, to compete successfully in the international marketplace to win a contract, one of the last hurdles to cross is the U.S. export control system. It is this last hurdle that discourages many of AIA's small- and medium-sized businesses from pursuing export opportunities.

Small- and medium-sized companies typically lack the resources and the confidence to navigate the complexity of the U.S. export control system or pay a high price for the expertise to do so. Failing to operate in compliance with the export control system carries both criminal and contractual liability. As a result, some companies avoid seeking export opportunities. Others routinely lose sales to foreign competitors because, as noted in the 2010 QDR, "our overly complicated system results in significant interagency delays that hinder U.S. industrial competitiveness."[1] Ultimately, the loss of export opportunities weakens the U.S. defense industrial base, a significant national security asset.

The U.S. commercial satellite industry is a prime example of the negative effects of inappropriate export controls on a business. In 1999 Congress mandated that commercial satellites and their parts and components should be moved from the Commerce Control List (CCL) to the U.S. Munitions List (USML) which is under the umbrella of the International Traffic in Arms Regulation (ITAR). The U.S. determined commercial satellites were a military grade technology even though the rest of the world treated their commercial satellites as commercial items. This determination led to increased bureaucracy and delays in getting U.S. products to market. As a result our international competitors took advantage of the inappropriate controls on U.S. technology and began to market their satellites as "ITAR-free." American companies saw their global market share go from more than 70 percent in 1995 to 25 percent in 2005 though we have recently seen some upswing in U.S. global market share.

For far too long, the conventional wisdom about Congress was that it did not favor export control modernization because that supposedly meant relaxing controls. On the contrary, reforms that allow for the "right size walls around everything" will strengthen our national security interests by preventing our adversaries from accessing our technology

[1] 2010 Quadrennial Defense Review, page 83

and facilitating technology trade with our closest allies and trading partners. Our defense industrial base will also benefit from the economic opportunity.

Short-Term Congressional Actions to Modernize U.S. Export Controls

- **Oversight of Reforms to the U.S. Munitions List.** There is a growing consensus in Congress that the overly restrictive, "one-size-fits-all" control system applied to all levels of technology "designed or modified" for use by the military no longer serves our national security interests. The export of low- or no-risk technologies to our key allies and partners is hampered, creating avoidable costs and delay. Congress should carefully consider the new administration proposal to tailor controls on the more flexible CCL to accommodate low- or no-risk technologies from the USML, as well as impending recommendations from the Defense Department-led review of the USML that will detail the technologies that could be moved over safely and securely.

- **Returning authority to the Executive branch to determine licensing jurisdiction for commercial satellites.** A healthy domestic space industrial base is vital to U.S. national security and foreign policy interests. Restrictive controls on all Commercial Satellite (COMSAT) technology have disadvantaged U.S. spacecraft and component manufacturers in the global marketplace—without necessarily having achieved their intended objectives. Taking action will safeguard access to critical space technology for the U.S. defense and intelligence community, strengthen America's ability to compete in the $144 billion global satellite market and reinforce our nation's global technological leadership. Industry is not seeking any change to current restrictions on exports of satellites to or launch from China, and supports Congressional review of adjustment to controls through the Section 38(f) notification process. The release by the administration of the Congressionally-mandated 1248 report outlining the appropriate control regime for COMSATs should serve as a guide for this discussion.

- **Amending current law so the State Department's Directorate of Defense Trade Controls can use fees it collects from industry to implement improvements in its licensing and compliance activities.** In 2008, the Directorate of Defense Trade Controls (DDTC) substantially increased registration fees levied on all US manufacturers of ITAR-controlled items. At the time, DDTC said higher fees were needed to implement procedural reforms mandated by National Security Presidential Directive 56, issued in January 2008. While DDTC has adequate funds to move forward on modernization, current law restricts the uses to which DDTC can direct these funds, with surplus funds diverted to other purposes. Industry opposed the fee increase, and we continue to believe adequate funding should be provided through normal appropriations channels. For as long as these fees continue to be collected, they should be dedicated to modernizing DDTC operations.

- **Updating Congressional Notification Thresholds and Processes.** Thresholds used to determine which export licenses must be notified to Congress have not been adjusted for inflation for more than thirty years. As a result, less-sensitive transactions are needlessly delayed. Industry also encourages dialogue between the

State Department and the committees of jurisdiction to develop procedures for more efficient and predictable review of licenses requiring Congressional Notification, including a documented procedure for out-of-session notifications.

Conclusion

The U.S. aerospace industry is second to none. The trade surplus our industry has earned and the hundreds of thousands of jobs it supports will play a critical role in our nation's economic recovery. Aerospace exports fuel the health of our companies and the competitiveness of the most innovative industrial base in the world. Our nation reaps the benefits of aerospace exports in the form of enhanced national security and economic growth. The government-industry partnership supporting aerospace exports is crucial, and cannot be taken for granted. In the absence of the type of dialogue and collaboration practiced by this committee and its leadership, it is easy to miss opportunities or even damage international cooperation with our friends and allies overseas.

AIA commends the committee's interest in this topic. We stand ready to work with you and the Obama Administration to ensure that we continue to make meaningful progress toward removing unnecessary bureaucratic hurdles to the export competitiveness of the U.S. aerospace and defense industry.

Joint Statement Submitted by
American Apparel & Footwear Association (AAFA)
National Cotton Council (NCC)
National Council of Textile Organizations (NCTO)

Before the
House Small Business Committee

On

The Reauthorization of the Export-Import Bank of the United States – Stakeholder Perspectives

July 27, 2011

Thank you for providing the above organizations the opportunity to submit comments regarding "Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?." We would like to focus our testimony on the Export – Import Bank of the United States and the pending reauthorization of the Bank. Our organizations strongly believe that today's hearing will help the Committee better understand how the Export-Import Bank (Ex-Im Bank) can better address the needs small exporters, particularly in the apparel and textile industry.

The Ex-Im Bank could and should play a critical role in supporting and expanding U.S. jobs in the U.S. textile industry and in turn anchoring a strong Western Hemisphere textile and apparel supply chain. Regrettably, the Ex-Im Bank has failed to fulfill this role because the structure of Ex-Im Bank loans and guarantees do not reflect either the realities of the apparel and textile supply chain, U.S. trade policy, or today's global supply chains in general.

At the direction of U.S. trade policy, the textile and apparel supply chain has developed across the Western Hemisphere and has evolved into a mutually beneficial relationship for both U.S. cotton growers and U.S. textile manufacturers as well as U.S. apparel importers.

The Free Trade Agreements and preference program areas in this Hemisphere for the most part grant duty-free access to the U.S. market for apparel assembled in the region as long as the apparel is made, either entirely or in part, from U.S.-grown cotton and U.S.-made yarn and fabric. As a result, all parties in the supply chain benefit – from U.S. cotton growers, U.S. yarn and fabric manufacturers, to apparel manufacturers in the region and ultimately the U.S. apparel brands and retailers. All parties are positioned to reap the benefits of U.S. trade policy. However, the supply chain is missing the necessary ingredient to truly make this supply a success – reliable supply chain financing for small exporters.

Prior to this reauthorization, the Ex-Im Bank did very little to support supply chain financing, particularly for small textile exporters. This lack of financing has had the practical effect of suffocating domestic capital investment and job creation. Traditionally, the Bank has only considered the creditworthiness of the producer receiving U.S. textile industry exports and has failed to acknowledge that these components, once exported to Central and South America, return to the United States – to major U.S. brands and retailers – as finished goods. This policy has limited the financing opportunities at the Bank for the small exporters that comprise the bulk of the U.S. textile industry.

Ex-Im Bank financing would facilitate and grow the Western Hemisphere apparel and textile supply chain by increasing the incentives for U.S. apparel brands and retailers to increase their sourcing from the region because such financing would make access to the U.S. cotton and textiles necessary to obtain the benefits under the various free trade agreements and preference programs easier, faster and more reliable. As a result, Ex-Im Bank financing would lead to increased exports of U.S. cotton, yarn, and fabric to the region. Those increased exports would support and grow U.S. jobs.

U.S. Government – "You Should Export to the Region, but We Won't Help You"

The Ex-Im Bank bases much of its financing decisions on country risk. In the case of the Western Hemisphere apparel and textile supply chain, this "Country Limitation" policy outright eliminates the possibility of financing for some countries and severely restricts financing and/or significantly increases the interest rates for many others that are integral to this supply chain.

As a result, the U.S. government strongly encourages U.S. textile manufacturers to export their products to Central America and the Dominican Republic through the incentives it negotiated through CAFTA-DR while at the same time saying that financing U.S. exports to half of the CAFTA-DR countries is too high of a risk to provide anything but the most limited loans and loan guarantees, at high interest rates to boot. For Haiti, a country that the U.S. Congress has deemed a priority through passage of the HOPE and HELP trade preference programs, the Ex-Im Bank basically says the country is off limits.

Improving Products to Better Provide "Supply Chain Financing"

While the amount of paperwork and the timeline for approval remain major barriers preventing any small business from utilizing Export-Import Bank programs, for the Western Hemisphere apparel and textile supply chain we believe that the Export-Import

Bank must adapt to today's global supply chain. As in textiles and apparel, the United States doesn't just export final manufactured products anymore. Exports of U.S.-made goods today are just one part of a global supply chain. And these exports are, for the most part, generated by small businesses. In our industry, U.S. exports of cotton, yarn, or fabric, return to the United States as finished apparel or home goods. The programs offered by the Export-Import Bank should reflect these realities.

House Bill Includes Textile Amendment to Help Address Industry Financing Concerns

The House Financial Services Committee recognized the evolution of the textile and apparel industry global supply chain. Essential legislative text was included in the version of H.R. 2072 approved by the Committee on June 22, 2011 that would address three important issues: Bank Advisory Committee representation, reviewing the industry's use of Bank products and why or why not they are being used, and promoting Bank financing of transactions for the textile and apparel industry.

The legislative text is explained in more detail below:

1.) Representation on Bank Advisory Committee: The textile industry will be included in the list of those to be represented by Advisory Committee members. The charter will read: "Sec. 3(d)(1)(B). Such members shall be broadly representative of environment, production, commerce, finance agriculture, labor, services, State government, and the textile industry."

2.) Textile Industry Use of Bank Products – Analysis: The Bank will conduct an analysis of textile and apparel industry use of the Bank products, examining the impediments to the industry's use of the Bank as well as then number of U.S. jobs supported by the industry, and make proposals for how the Bank could provide financing to meet the needs of the industry, including proposals for new products. Within 180 days, the Bank will be required to submit a report to Congress that contains the results of the study.

3.) Promotion of Industry Financing by the Advisory Committee: The Advisory Committee will be required to consider ways to promote Bank financing of transactions for the textile industry, consistent with the requirement that the Bank obtain a reasonable assurance of repayment, and determine ways to increase Bank support for exports of textile components or inputs; and increase Bank support for the maintenance, promotion and expansion of jobs in the United States that are critical to the manufacture of textile components and inputs.

4.) Annual Report: The determinations made by the Advisory Committee would be included in the Bank's annual report. In addition, the Bank would be required to report on the success of the Bank in providing effective and reasonable priced financing to U.S. textile and apparel industry for exports of goods manufactured in the United States and steps the bank has taken to increase the use of Bank products.

It is our belief that the legislative text as included by the Financial Services Committee would be a great first step towards bringing much needed liquidity to the Western

Hemisphere supply chain at a time when major brands and retailers are considering shifting sourcing back to this region of the world.

Conclusion
Thank you again for holding a hearing on this important issue. We believe that a combination of changes in both Export-Import Bank policies and programs will position the Export-Import Bank to truly assist U.S. companies, particularly small businesses, and the hundreds of thousands of U.S. workers they employ, that play a critical role in today's global supply chains. We would be happy to discuss any of the above points in more detail with the Committee.