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Madam Chairwoman and members of the House Small Business Committee, I am pleased to participate in today's hearing.

The Office of the U.S. Trade Representative (USTR) is responsible for developing and coordinating U.S. international trade policy. Our work aims to increase exports by expanding market access for American goods and services abroad and securing a level playing field for American workers, farmers and businesses of all sizes in overseas markets. USTR negotiates with other governments on these matters. We work closely with other agencies, Congress and numerous other stakeholders in this effort. In addition, we enforce agreements and resolve trade problems using a wide variety of tools, including bilateral discussions, negotiations, and formal dispute settlement proceedings.

For small business, our key task is to break down trade barriers abroad through government-to-government negotiations so that we open the door to new markets. Our partner agencies, such as the Department of Commerce, the Department of Agriculture, and the Small Business Administration (SBA), help small and medium-sized business and farmers walk through the door to take advantage of these new markets and new customers. Since 95 percent of potential customers reside outside our borders, American small businesses benefit when we expand U.S. access to consumers and households abroad who want to buy and enjoy our products.

Small businesses drive U.S. exports. Ninety-seven percent of all U.S. exporters are small businesses, accounting for more than a quarter of U.S. goods exports. Even the smallest of U.S. businesses are big players in global markets – according to the Department of Commerce, more than two-thirds of U.S. exporters have fewer than 20 employees.

U.S. Small Businesses Export to the World

USTR is committed to reducing trade barriers so that American small businesses can succeed in the world market. Our trade agenda is uniquely attuned to helping small business, by lowering the costs of selling to customers overseas, minimizing risks in foreign markets, insisting on intellectual property rights protection and enforcement, and promoting the rule of law, providing certainty and predictability for U.S. investors and small business owners. Where larger companies can take on the financial burden, manage the risk, and employ the necessary human capital to create new export opportunities abroad, small business owners frequently do not have these resources. That is why USTR's efforts to open the doors to exporting abroad --- and Commerce, USDA, and SBA assistance to help small businesses walk through the door – are needed.

Allow me to present some statistics to give you a more concrete picture of the importance of trade to U.S. businesses, both small and large, and their workers. Across the 50 states, trade is helping small businesses to succeed. SMEs accounted for almost 99 percent of the 1992-2004 growth in the exporter population. The number of SMEs that exported merchandise more than doubled in this period, soaring from 108,026 in 1992 to 225,139 in 2004.

For example, businesses in New York State exported to more than 200 foreign destinations in 2006, with exports of merchandise totaling $57.4 billion. New York was the third largest exporter among the 50 states in 2006, with its exports to the world increasing by $20.4 billion from 2002 to 2006. The state's largest market in 2006 was NAFTA member Canada ($12.2 billion), followed by Israel ($4.6 billion), and the United Kingdom ($4.2 billion). Other top markets included Switzerland, Japan, Hong Kong, Germany, Mexico, Belgium, and China. One-sixth of all manufacturing workers in New York are supported by exports (2003 data are the latest available), in categories such as computers and electronic products ($7.7 billion in 2006), machinery ($5.7 billion), transportation equipment ($5.5 billion), and chemicals ($4.8 billion).

According to the Department of Commerce, 25,146 companies exported goods from New York locations in 2005, the third highest number among the 50 states. Of those, 94 percent, or 23,548 firms, were small and medium-sized enterprises (SMEs), with fewer than 500 employees. SMEs generated more than half (54 percent) of New York's total exports of merchandise in 2005. That is the fourth highest percentage among the 50 states and well above the national average of 29 percent.

Likewise, in the State of Maine, where 2006 goods exports were equivalent to 6.6 percent of state GDP, exporters have been recognized for their achievements. The U.S. trade agenda of opening markets abroad offers more growth and sales opportunities for these Maine businesses. In April, the state held its annual **International Trade and Investment Awards.** Recipients are businesses or individuals who have demonstrated outstanding success in international trade. For example, The Maine Exporter of the Year for 2007 is **Oak Island Seafood Inc**. Established in 1995, Oak Island Seafood is a scallop processing company located in Rockland that services the domestic, European and Asian markets, selling fresh and frozen scallops to distributors and retailers around the world. The company has also introduced new lines of Maine seafood products, such as frozen coldwater shrimp and clams, to international markets.

Another example is the Maine 2007 International Innovator of the Year, **Trillium Diagnostics, LLC** of Brewer. Established in 1996, Trillium develops innovative medical diagnostics for laboratory hematology based upon the research of company founder and President Dr. Bruce H. Davis, and presently exports products to NAFTA partner Canada, the European Union, FTA partner Israel, FTA partner Australia, China, Japan, Brazil, and our prospective FTA partner, Korea.

The U.S. Trade Agenda and Small Business

However, more needs to be done to open markets for companies like Oak Island Seafood, Trillium Diagnostics, and tens of thousands of others across the country. Small and medium businesses have great potential for expanding their sales overseas, but the cost of doing business overseas is often too high for small firms. As a 2004 SBA report entitled," Costs of Developing a Foreign Market for a Small Business: The Market and Non-Market Barriers to Exporting by Small Firms found, trade barriers, including red tape in foreign markets serve as impediments to U.S. small business exports. For those companies who wish to take advantage of the international market place, the large start-up fixed costs of exporting are so high that they have served as another obstacle to exporting.

Small businesses need markets to be open and easy to navigate. The U.S. trade agenda is crafted to meet this challenge by pursuing trade opening efforts on three, mutually reinforcing, tracks, including global negotiations at the WTO, regional and bilateral free trade negotiations with numerous partners, and stewardship of the multilateral trading system through establishment and enforcement of an agreed-upon set of rules.

Doha Round: Breaking down barriers in a multilateral setting among the 150 Members of the WTO would create the greatest benefit in easing the costs of doing business for small businesses that sell abroad and use inputs from partners around the world. The U.S. commitment to completing the Doha negotiations remains strong. We will provide the necessary leadership, but all major trading partners have responsibilities, and must contribute. This Round is of critical importance for American farmers, ranchers, and businesses providing goods and services. But it is also a Development Round that has the potential to help lift millions out of poverty worldwide. The key to a Doha success is to create new economic opportunities on a global basis, and that can only happen with a strong market-opening outcome. The litmus test is a market-opening outcome that delivers meaningful new trade flows in agriculture, manufacturing, and services – which is also the best way to secure real development benefits

Accession to the WTO: Vietnam has become the 150th member of the WTO, marking an economic and governmental transformation in that country of historic proportions. The accessions of Ukraine and Russia are also pending. Strong U.S. bilateral market access agreements negotiated with each of these countries will help to ensure that they are fully-integrated and fully accountable participants in the trading system. U.S. leadership in this regard and the consistent and principled application of enforcement provisions at the WTO are helping to construct a set of rules that is the very embodiment of fair trade.

Bilateral and Regional Free Trade Agreements: Free trade agreements concluded by the United States are comprehensive agreements with strong commitments, setting the standards for these agreements around the globe. Our free trade agreements (FTAs) not only level the playing field for American farmers, ranchers, manufacturers and service providers, they also strengthen intellectual property rights, and they promote transparency and the rule of law, and safeguard labor and environmental standards. Exports to our FTA partners are growing twice as fast as our exports to non-FTA countries, and the jobs supported by goods exports pay 13 to 18 percent more than those not supported by exports.

Since 2001, this work on FTAs has resulted in agreements close to home in Latin America with Chile and with the six CAFTA-DR countries. It has enhanced U.S. trading terms in Asia through agreements with Singapore and Australia. Our work has moved us toward an unprecedented Middle East Free Trade Area, through agreements implemented with Jordan, Morocco, Bahrain and soon Oman.

More recently we have signed agreements with Peru, and Colombia and expect to sign an agreement with Panama at the end of June. We also expect to sign an agreement with Korea, our 7th largest goods trading partner, at the end of June. Congress must enact legislation approving our agreements with Peru, Colombia, Panama and Korea before U.S. companies, farmers, workers, and consumers can reap the benefits of these negotiations

The results of these FTAs speak for themselves: FTAs implemented between 2001 and 2006, netted a $13 billion U.S. trade surplus with trade agreement partners last year.

It is clear from other metrics as well that these market-opening efforts with FTA partners are bearing fruit. For example:

- <u>CAFTA-DR</u> - U.S. exports to the four Central American countries that implemented the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR) in 2006 were up 18 percent last year. Exports to El Salvador were up 16%, to Nicaragua up 21%, to Honduras up 14%, and to Guatemala up 24%.

- <u>Bahrain</u> – U.S. exports to Bahrain grew 40% to $491 million in 2006, as the FTA entered into force on July 1.

- <u>Chile</u> - U.S. exports to Chile have risen by over 150% since 2004, making the United States Chile's largest trading partner.

- <u>Singapore</u> - The U.S. trade surplus with Singapore tripled after the first year of the U.S.-Singapore FTA, reaching $4.2 billion, and rose to $6.9 billion in 2006. Building on an already healthy trade relationship, U.S. exports to Singapore have risen by over $8 billion (49%) since entry into force.

- <u>Australia</u> - Since the U.S.-Australia FTA went into effect, the U.S. trade surplus with Australia grew to $9.6 billion, with U.S. exports rising $3.6 billion to $17.8 billion in the first two years. U.S. exports to Australia have risen 25% since the agreement entered into force.

- <u>Jordan</u> - U.S. exports to Jordan have risen by 92% since the U.S. – Jordan FTA went into effect in December 2001.

- <u>Morocco</u> - U.S. exports to Morocco increased by 67% in the first year after entry into force, growing from $525 million in 2005 to $878 million in 2006.

Moreover, SMEs account for substantial U.S. export shares in many key markets. In 2005, for example, small and medium-sized businesses accounted for 43% of U.S. exports to Central America. Central America and the Dominican Republic represent the second largest market for U.S. small business exports in Latin America, behind only Mexico. Of the more than 14,000 U.S. exporters to Central America in 2005, 88% were small and medium-sized. To take another example, in 2004, small and medium-sized businesses accounted for one-quarter of U.S. exports to FTA partner Australia. Of the over 22,000 U.S exporters to Australia, almost 90% were SMEs.

Enforcement: The Administration's trade agenda recognizes the pressure created from a growing and increasingly competitive global economy. Our agenda addresses these pressures in three positive and effective ways: by creating new opportunities in global markets, by setting fair rules for trade, and by enforcing those rules using every available tool. Enforcement has been and continues to be a critical piece of our trade agenda.

At the same time that we are negotiating new agreements, enforcement of existing agreements is also essential. We have remained vigilant in using all the tools we have to ensure that the rules of trade are fair and that our trading partners honor their commitments to these rules. We have been a party in over 70 WTO cases - on everything from high fructose corn syrup to biotechnology, to aircraft subsidies.

In this context, we have devoted considerable attention to enforcement with regard to China. Now that China has completed its transition as a member of the WTO, we have moved into a mature relationship with this valued trading partner. That means holding China to its WTO commitments, as we would any other WTO Member. Recognizing this and given our wide-ranging trade relationship with China, last year Ambassador Schwab established a chief counsel whose sole responsibility is enforcement of China's trade commitments.

We have shown that we are genuinely committed to challenging China's WTO-inconsistent practices that harm American workers and businesses. I would mention that the United States was the first country to initiate a WTO dispute settlement case against China. In addition, last year, USTR brought a case on China's unfair charges on U.S. auto parts exports. In February of this year, we brought a case against China's subsidy programs, and this has already resulted in the elimination of one of the challenged programs. By subsidizing China's exports to the United States and denying U.S. exporters a fair opportunity to compete in China, the Chinese subsidy programs unfairly affect U.S. manufacturers – especially small businesses - and their workers. Elimination of the subsidies will help level the playing field for U.S.-based manufacturers across a range of industries, and, in particular, for America's small and medium-sized businesses.

Most recently, USTR requested dispute settlement consultations with China on two issues. The first involves deficiencies in China's legal regime for protecting and enforcing copyrights and trademarks on a wide range of products, and the second involves China's barriers to trade in books, music, videos and movies. Inadequate protection of intellectual property rights in China costs U.S. firms and workers billions of dollars each year, and in the case of many products, it also poses a serious risk of harm to consumers in China, the United States and around the world.

An earlier dispute with China involving paper products was resolved with merely the U.S. threat of a WTO case. And for every one of these high profile disputes at the WTO against China, there are numerous enforcement priorities that we are achieving more quietly on an ongoing basis through bilateral mechanisms like the Joint Committee on Commerce and Trade. In addition, efforts like the Strategic Economic Dialogue allow us to discuss broad, cross-cutting issues with top Chinese decision-makers, in an effort to improve communications and avoid or minimize future problems.

For small businesses, this rules-based approach to trade is critically important to our continued competitiveness in international markets.

Addressing the Needs of Small Businesses

By reducing the (often hidden) costs of doing business overseas, U.S. trade agreements open promising new markets for American small business. Simply put, the trade agenda makes it easier for small business to sell overseas and expand their customer base. Here are some specific ways in which our WTO and FTAs open doors abroad for U.S. small business:

- **Reducing Tariffs -** High tariffs are added taxes on U.S. exports, driving up the cost of the product and narrowing potential markets. USTR is working both through Free Trade Agreements (FTAs) and in the WTO to open markets by bringing down tariffs on agricultural and manufactured goods.

- **Non-Tariff Barriers:** Inconsistent customs procedures, lack of transparency and burdensome paperwork can serve as barriers to trade. U.S. trade agreements eliminate numerous non-tariff barriers that are especially harmful to smaller companies because they usually add to the fixed costs of doing business, and they are often unforeseeable. The United States is leading efforts in the WTO to help enhance transparency, promote efficiency and reduce the costs of trade.

- **Transaction Costs:** Inconsistent licensing requirements and inspection standards can add costly processes and time prohibitive steps for a small business. While a licensing fee may be a nuisance for larger companies, it can be prohibitive for smaller ones. Smaller companies, with lower sales and profits than larger companies, have less revenue across which to spread fixed costs. U.S. trade agreements are particularly useful to American small businesses because they lower transaction costs in overseas markets. Lower transaction costs mean more small businesses will find sales that are profitable.

- **Enforcing Intellectual Property Rights -** Information for obtaining a patent in a foreign country is not easily accessible or readily digestible. Disparities in patent systems create a large capital expenditure for small businesses trying to protect their rights, and these businesses are then left with few resources to enforce their rights. Because a patent or trademark is only as valuable as its capacity to be enforced, USTR, in coordination with the Patent and Trademark Office, the Department of Homeland Security, and the Department of Commerce, launched the Strategy Targeting Organized Piracy ("STOP!") Initiative -- www.stopfakes.gov. This program helps small businesses learn how to protect their intellectual property. Additionally, the United States is actively working with our trading partners to ensure that patents and trademarks are enforced abroad. Activities in this area include capacity building and training programs for law enforcement and customs officials, for example.

- **Transparency:** One of the most significant obstacles to small U.S. companies seeking to do business overseas is the complicated web of differing rules, standards and business cultures they must negotiate. U.S. trade agreements are increasingly focused on creating a transparent business environment, so that U.S. companies know what the rules are and that they will be applied fairly and consistently. Trade agreements are our single best tool for creating a level playing field for U.S. small business.

- **Expanding Services Trade –** Services account for over two-thirds of the U.S. economy. For American small businesses, e-commerce and the Internet reduce transaction costs significantly, while increasing the pool of potential customers around the globe. Through the WTO and FTAs, the United States is working to reduce non-tariff barriers across all service regimes, including financial services, telecommunications, computer and related services, express delivery, distribution and energy services.

Conclusion

We have unique and historic opportunities for the trade agenda that are still ahead. The important bipartisan agreement on trade reached in May offers a clear and reasonable path forward for all four pending FTAs – with Peru, Colombia, Panama, and Korea -- even though each will move along that path in its own way and in its own time.

It also opens the door for an extension of Trade Promotion Authority, which will be essential to complete the Doha Round.

A successful conclusion to the Doha Round and passage of legislation implementing each of the pending FTAs would bring benefits to small businesses and households across the country. Consider the agreement reached with Peru, a strong ally in Latin America. Passage of legislation implementing this agreement will benefit Ross Valve Manufacturing Company in Troy, New York. The company's vice president, Andy Ross, recently summed up the direct benefits of the agreement for his company saying,

> We are a family-owned fifth-generation American manufacturer and have been doing business in Peru for 60 years, but without a free trade agreement our market share will remain small compared with other overseas manufacturers. A free trade agreement with Peru would allow Ross Valve to grow our overseas business while adding jobs here in the United States.

In Asia, the United States-Korea (KORUS) FTA offers tremendous export opportunities for small businesses and farmers across the United States. This is the most commercially significant FTA we have negotiated in over 15 years, as Korea is a trillion dollar economy and the United

States' 7th largest export market. Moreover, the KORUS FTA advances the ability for the United States to increase its economic footprint in Asia. Consider opportunities for pork farmers in Illinois. Commenting on the KORUS FTA, Jill Appell, President of the National Pork Producers Council and a pork producer from Altona, Illinois, said

> U.S. pork producers are excited about the new deal... the U.S. trade team came through for pork producers and delivered a fabulous deal that will eliminate duties on U.S. pork exports and generate hundreds of millions of dollars in new pork exports.

To conclude, trade is good business for America's small businesses and producers. We are committed to leveling the playing field abroad with an active trade agenda, and opening new doors of opportunity so that U.S. small businesses can succeed in the global marketplace.

Thank you and I look forward to taking your questions.