

Written Testimony of
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Entrepreneurship of the United States Senate

“Keeping America Competitive: Federal Programs
That Promote Small Business Exports”

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Senator Landrieu, good afternoon and thank you for inviting the World Trade Center to testify at today’s hearing on the subject of small business exporting, which is vital to Louisiana and our country’s economic interests. We greatly appreciate what you and the other members of the Louisiana delegation have done over the years to support international trade and to further economic development for our state and country.

WTC Trade Promotion Activities

By way of background, the World Trade Center of New Orleans is a non-profit organization of 1,600 corporate and individual members which was started in 1943 and was the first of what are today over 300 World Trade Center organizations in nearly 100 countries. The WTC’s mission is to add wealth and jobs in Louisiana through international trade, port development, and allied activities.

In line with these objectives, the WTC has long been involved in conducting a wide range of trade promotion, education, and legislative programs designed to enhance Louisiana’s position in international trade, investment, transportation, and other trade-related services, and to contribute to the state’s overall economic development. As examples, just last week the WTC held two separate business briefing programs for the business community, one on the current situation and opportunities in Mexico, the other on Canada.

One of the WTC’s most important initiatives in the aftermath of Hurricane Katrina, in cooperation with Louisiana Economic Development, was the launching of 1st Stop for International Business Services, a program using university student interns to assist international companies considering trade and investment opportunities in Louisiana.

In recognition of its sustained efforts over many years, the WTC has received both the President’s “E” and “E-Star” Awards for outstanding contributions to the expansion of United States exports.

Louisiana’s International Role

Louisiana was settled mostly by the French and Spanish more than 300 years ago precisely for trading purposes, and that objective is every bit as important and relevant today as it was then. This is a remarkably multinational, multicultural and multilingual state where any international visitor feels comfortable, and it offers an intrinsic competitive advantage in trade and commerce as we interact with people and companies from all over the globe.

Louisiana has always enjoyed a strategic geographic location linking Mid-America to all corners of the world through its ports on the Mississippi River and its vast inland waterways network. Six Class I railroads, the Interstate highway system, and the state's airports also connect Louisiana quickly and efficiently to America's heartland. The state is truly a great *entrepot* as a domestic and international transportation hub and distribution center for primary, intermediate and finished products.

Later in this testimony I will focus on the needs of our ports to keep them globally competitive in the future, but first let's take a look at Louisiana's recent export results.

Louisiana Export Results and Trade-Related Recovery Efforts

2008 was a record-breaking year for Louisiana's merchandise exports – both Louisiana-originating products and major commingled bulk commodities such as grain and coal produced in other states that are shipped abroad from Louisiana's ports and officially recorded as Louisiana exports. Total export shipments from Louisiana in 2008 had a value of \$41.9 billion, based largely on soaring grain and oil prices in the first three-quarters of the year, placing Louisiana 9th among the states in exports in 2008.

This \$41.9 billion of Louisiana exports was a 38 percent increase over 2007, and was the second-largest increase among all states and triple the U.S. overall export growth of 11.9 percent last year. By comparison, in 2004, the year prior to Hurricanes Katrina and Rita, Louisiana's exports were \$19.9 billion. Agricultural products, petroleum and coal, chemicals, processed foods, and machinery ranked as the state's top five export categories in value in 2008, all of which registered gains of 25% or higher over 2007.

Due to the effects of the global recession and declining agricultural and oil prices, Louisiana's worldwide merchandise exports declined sharply in value in the first quarter of 2009. Total export shipments for January-March 2009 declined 33.5 percent to \$7.6 billion, compared to the first three months of 2008, while total U.S. exports dropped by 22.5 percent. Nonetheless, even with its lower level of exports for the January-March 2009 period, Louisiana moved up to 7th in the state rankings from 9th for all of 2008.

Louisiana is preparing for the gradual recovery and upturn in global markets and has many worldwide opportunities for the future. The state also has a significant hemispheric advantage. The Mississippi River is truly "The Avenue of the Americas," a magnificent water highway leading to and from the rest of the world, and especially to nearby Latin America.

Importance of Latin America for Louisiana Trade

Last year, of Louisiana's total record exports of \$41.9 billion noted earlier, 37 percent (\$15.6 billion) were shipped to Mexico, Latin America, and the Caribbean region. Mexico was the number one market for Louisiana exports, while Canada ranked fifth, with both results reflecting the positive trade impact that the North American Free Trade Agreement (NAFTA) has had on Louisiana. In addition, the U.S.-Dominican Republic/Central American Free Trade Agreement (DR/CAFTA), the U.S.-Chile FTA, the U.S.-Peru FTA, and the pending FTAs in Congress with Colombia and Panama all offer timely opportunities for Louisiana and its strong hemispheric transportation links to the U.S. heartland. Another potential market for the longer-term future is Cuba and the possible further opening of that market to U.S. goods and services.

As further evidence of its commercial advantages with Latin America, a recent detailed analysis of Southeast Louisiana's trade potential from Baton Rouge to the mouth of the Mississippi River concluded that Latin America should be the primary marketing focus. The study by Booz Allen Hamilton consultants was commissioned by Greater New Orleans, Inc. and the Baton Rouge Area Chamber to determine the best international trade strategy for the region considering all infrastructure assets such as its port system.

Louisiana's Deepwater Port System

Few of our own residents -- let alone outsiders -- are aware that the five lower Mississippi River deepwater ports in Louisiana between Baton Rouge and the Gulf represent the largest port complex in the world in total waterborne commerce. One in seven jobs in Louisiana for a total of 280,000 jobs is estimated to be maritime-dependent, which in turn generates about 23 percent of the state's gross domestic product and \$500 million in state and local taxes.

Although mostly transit facilities, Louisiana's public and private ports can be much more than that, as in other states. They have the potential to add more processing, value, and jobs to inbound and outbound cargos (such as has been done with coffee) for steel, rubber, petrochemical, agricultural, forestry, seafood, and other products.

But greatly increased financial resources are needed to upgrade the port facilities to make them globally competitive for the future, particularly in light of the expansion of the Panama Canal in 2014 which will allow a doubling of cargos coming into the Gulf of Mexico, mainly from Asia. Investing in Louisiana's transportation infrastructure is an assured statewide economic multiplier many times over.

Port of New Orleans Container Expansion Project

Despite the pressure that the global recession is having on cargo shipments, Louisiana's ports need to find ways to make the capital investments that will build a brighter future for the people of Louisiana and improve the nation's transportation infrastructure. For example, in its 2020 Master Plan, the Port of New Orleans documented \$1 billion in

capital investment projects. Chief among those projects is an expansion of the Napoleon Avenue Container Terminal.

With the expansion of the Panama Canal in just five years, the Napoleon expansion project gives our country the ability to fully utilize the Gulf Coast to distribute cargo up through the Mississippi Valley. This could offer a more cost-effective transportation solution in some markets when compared with shipping through the East or West Coast.

Also included in the Port's plans are projects that would ensure that New Orleans' break-bulk facilities retain their modern edge. This is important not just to our local economy, but to the national economy because New Orleans supplies manufacturers throughout the Gulf Coast and Mid-West with critical materials such as steel, rubber, aluminum and forest products that they need to make high-quality American goods.

New Tax-Credit Legislation Related to Louisiana Ports

Two additional recent developments auger well for Louisiana's international outreach. One is a bill approved just last week by the Louisiana State Legislature, which is awaiting Governor Jindal's signature. HB 215 provides for a Ports of Louisiana Infrastructure Tax Credit Program in an amount equal to the private investment in qualified public port facilities to be taken by a private investor at 5% per year. The bill also provides for a \$5/ton tax credit to Louisiana-based business for an Import and Export Tax Credit Program for qualified break-bulk and containerized cargo imported or exported through Louisiana public ports.

The infrastructure tax incentive will provide another method for funding new or upgraded port infrastructure. According to Port Association of Louisiana, the \$23 million in Port Priority Program funding for the \$78.2 million in proposed port projects in the state results in a \$55 million deficit in the program, and pales in comparison with the \$2 billion being spent at competing ports (\$800 million at the Port of Houston, \$600 million at Gulfport, \$300 million at Mobile, \$300 million at Tampa).

At the same time, the import/export tax incentive will help to maintain the current shipment by Louisiana business of 700,000 tons of break-bulk and container cargo through Louisiana public ports and encourage the shipment of some of the 900,000 tons through Louisiana public ports now utilizing competing ports. A recent economic analysis indicates that shifting just 10% of these latter cargos to Louisiana ports will result in an increase of \$2 billion of business activity in Louisiana, and \$50 million in additional state and local tax revenue.

New Non-Stop New Orleans-Mexico City AeroMexico Flight

Another important recent transportation development was the announcement that starting on July 7 AeroMexico will commence a direct, non-stop flight six days a week from New Orleans to Mexico City, and onward to San Pedro Sula, Honduras. This marks the first return of international air service to the New Orleans International Airport since

Hurricane Katrina four years ago and will hopefully set the stage for other flights to follow.

Future U.S-DR/CAFTA Meetings in New Orleans

Returning to DR/CAFTA for a moment, the World Trade Center and other organizations in Louisiana greatly appreciated your initiative with the letter sent by Louisiana's Congressional delegation in April of 2008 to President Bush requesting the administration's consideration for designating New Orleans as the host site for all U.S.-DR/CAFTA institutional and ministerial functions. Although the agreement does not specifically call for the establishment of a formal secretariat, it contains numerous provisions requiring meetings and negotiations to successfully implement the agreement. As you will recall, then-Trade Representative Susan Schwab responded to the delegation on behalf of President Bush stating, in part, that "New Orleans certainly offers much as a potential site for meetings and other activities under the agreement." We therefore would appreciate your and the delegation's further assistance in following up with the new Administration, and Amb. Kirk, on this important issue. In particular, we would like to have New Orleans be given top consideration for these types of meetings and events. New Orleans was home to many of the initial DR-CAFTA negotiations and also has played host to many international events, including the Summit of the Americas last year. We believe that hosting DR-CAFTA meetings and activities here in New Orleans not only helps ongoing recovery efforts but also recognizes the important role our city continues to play in international trade.

Now what does all this have to do with small business? The answer is that it means a lot. Export growth, expanded port traffic, new markets for Louisiana companies, and international events held in our state create additional revenues and jobs for both large and small businesses alike. But increased exporting by Louisiana companies, and particularly in Latin America where it is less costly to travel to and to do business in those markets, offers special opportunities for our state's small businesses.

Small Business Exporting Examples

Here are some brief examples of the type of small businesses that I am referring to that are active members of the World Trade Center and involved in exporting.

Atlantis International was founded 32 years ago by Manuel F. Blanco and his late-father. Atlantis markets an extensive line of automotive and industrial lubricants and auto-chemicals under different private labels including Atlantis' own. The products are marketed through a network of more than 55 exclusive wholesale distributors throughout the world, including Central and South America, the Caribbean, Middle East, Australia, Japan, Malaysia and West Africa. Atlantis has become a very successful third-generation family business growing at better than 20% annually since 2001. Atlantis has been voted by Hispanic Business Magazine as one of the top 50 Hispanic exporters in the country.

Maria Bonilla is the President and since 1986 the owner of American Overseas Trading Corp., a New Orleans company which exports hearing aids, hearing aid batteries and accessories, as well as hearing testing equipment, to Latin America. Although the company used to export U.S.-made products, most U.S. hearing aid manufacturers have merged or been bought out by European conglomerates. The few remaining U.S. manufacturers now assemble their products overseas. AOTC therefore has no choice but to sell products manufactured in Europe. Their clients in Mexico, Central America and Chile therefore do not benefit from U.S. Free Trade Agreements with those countries. Furthermore, AOTC is less competitive when selling against products manufactured in the European Union, since the EU has free trade agreements with most Latin American countries. Nonetheless, AOTC continues to be an innovative and successful Louisiana exporter. They stock products in New Orleans and ship from here. Most of their customers place orders which include many different items even though hearing aids usually make up most of the value of the orders. AOTC's ability to offer "one stop shopping" gives us them an edge over hearing aid manufacturers that provide only hearing aids.

Jim Dartez started Royce Instrument Corporation in 1985 in eastern New Orleans as an analytical instrument design, manufacturing and sales company. In 15 years Royce became an \$8 million business with over 40% of its sales going to over 45 countries. In recognition of that success, Royce received the President's E-Award for Small Business Exporting, and in 1987 the company won the state (Louisiana), regional, and national Small Business Export award -- a truly remarkable accomplishment. Dartez sold Royce to the ITT Corporation in 2002 and recently began Reliant Water Technologies with three employees, supplying unique, patented technologies to the global water, wastewater treatment and aquaculture markets. Reliant already is exporting 12% of its product sales.

Carlos Hidalgo, the President of Tech-Sales Inc. a recipient of the E-Award, founded the company in 1983. Tech-Sales is a small exporting company in the business of supplying industrial spare parts and equipment to overseas manufacturers, mostly throughout Latin America. As the company has grown its international business, Tech-Sales now has 10 employees.

Andrew and Nancy Weir are the owners of Alexander & Hamilton, Inc., a global commercial accounts receivables management company, that was founded in Metairie, Louisiana in 1992. Initially, the company restricted its business activity to the United States, but with the emergence of the global marketplace, it expanded its menu of services to assist businesses around the world in reducing the risk of doing international business on credit terms. They ensure that companies fulfill their obligation to pay their just business debts and perform their bilateral commitments.

Federal Government Export Promotion Programs

Turning to the federal government's trade promotion programs to assist small businesses in exporting their goods or services, the following comments and suggestions are offered.

We all know that engaging in international trade is a continuous challenge for a host of reasons: political turmoil in one or another country, protectionist regulations, market uncertainties, exchange rate fluctuations, trade organization edicts, compliance requirements, payment problems, shipping delays, cultural differences, and numerous changing procedures and documentation to contend with in every country, including our own. All of this can be very confusing and daunting to the newcomer, to say the least. While there is a favorable trend toward harmonization, we're not there yet.

As most experienced international traders will confirm, however, the overall rewards can be well worth the risks and difficulties. American companies need to maintain their efforts to produce high-quality products and services and to market them aggressively and competitively abroad. Practical knowledge, training, and persistence by all businesses is therefore vital to our future success in the international arena.

The learning process never stops. We all come across exporters who are motivated to attend seminars and workshops because of problems that suddenly surface in their trading operations. To their chagrin, they often quickly discover that they were not as knowledgeable or up-to-date as they thought. Advance preparation and planning invariably would have prevented these problems. The critical factors needed are technical knowledge and training, which will lead to success for those who carefully apply what they learn. And that learning process must be orderly and understandable.

Export Training for Small Businesses

New-to-market exporters of manufactured products and services need comprehensive training in the export process in three areas: (1) basic training in exporting procedures and documentation; (2) learning about trade finance programs available from the SBA,

Ex-Im Bank, private commercial banks, and other financial institutions; and (3) export promotion services offered by the U.S. Department of Commerce and other agencies through Export Assistance Centers located throughout this country (including New Orleans) and at U.S. embassies and consulates abroad in the larger countries. But it is the first category of training that I wish to discuss now.

Trade finance, working capital loans, Gold Key services, and other government programs are of course extremely valuable at a certain point. But I believe the starting point for a would-be exporter is to fully understand the export process, the steps that go into it, the trade terminology, rules, regulations, documentation, and procedures. This includes learning how to prepare an export business plan, understanding the role of the freight forwarder, the difference between FOB and CIF and other terms of trade, obtaining cargo insurance and what it covers, preparing a pro-forma invoice, packing list, the Shipper's Export Declaration, and other documents and details involved in exporting, where even small errors can be potentially costly.

All this takes time and effort by small businesses to learn. It can't simply be "Googled" or absorbed at a half-day seminar, let alone a breakfast or luncheon workshop. To meet

this need and the time demands, the Greater New Orleans SBDC offers a 17-hour export-import seminar that is divided into 4 afternoon sessions of 4-1/2 hours each.

Admittedly, that may seem like a lot of time for a small business person to devote to learning the basic export and import process, but it is necessary, although the export and import sections could be divided into two separate courses. But the real problem is that for budgetary reasons the course is offered mainly in the New Orleans area at this time, whereas most of the individuals and companies that require this type of intensive training are located in other parts of the state.

One solution to that problem would of course be to dedicate additional resources to conducting the training in more locations to reach more companies, but a better remedy would be to develop training videos or webinars that can be widely publicized by SBDCs, Chambers of Commerce, the World Trade Center, other trade associations, and universities throughout the state. The SBA and Commerce Department may want to jointly evaluate this possibility, if they haven't done so already.

Government Export Finance Programs for Small Businesses

With regard to some of the small business programs of the federal government, the following observations are made based on comments we have received from a number of WTC members who use those programs.

One issue that is increasingly difficult to work with is the Ex-Im Bank requirement for minimum U. S. content. Most of the export credit agencies with whom Ex-Im competes, such as the U.K.'s ECGD, dropped (or lessened) content requirements years ago. In the manufactured goods arena, this is a real issue as so many components, such as electronics, are made abroad and simply not available in the U.S.

Lowering the U.S. content requirement to more realistic levels could help many small business exporters. In Ex-Im's short-term programs, a minimum of 50% is usually standard. In their medium-term programs, only the U.S. content is eligible for Ex-Im support (up to 85%). In all cases, the profit that an exporter earns is not considered as part of the U. S. content; simply modifying the calculation to include the exporter's gross profit could be a quick and meaningful improvement.

Of course, it is interesting to note that the SBA, a sister agency in many ways, has no such local content requirement and, thus, there is a major inconsistency within the federal government. But the SBA only offers one relevant export program: the line of credit program (Export Working Capital Loan Guaranty). Under the EWCG, the maximum the exporter can do is just \$2 million. So, for most deals, the exporter has to go to Ex-Im and then is up against the local content requirement.

Also, SBA's EWCP loans top out at \$2 million and many exporters may have larger needs. A doubling of SBA's EWCP loan to \$4 million would greatly remedy this problem. Even though Ex-Im offers loans exceeding \$2 million, Ex-Im's program do not

reach near the number of small businesses that SBA can.

Moreover, our understanding is that the most widely used -- and really helpful -- service of any export finance service offered by the federal government is Ex-Im's short-term credit insurance. Thousands of exporters use this insurance. Yet, once again the 50% minimum U. S. content requirement is a significant impediment to export. Many deals just don't happen because the content is below 50%, and often just marginally so. While there are private insurers with no such restrictions, the Ex-Im offering is really geared to small business exporters with small export volumes not of interest to the private insurers. Offering some content relief could make a huge difference.

Recommendations Regarding SBA and Trade Representative Positions

With regard to several recommendations that have been made by the Small Business Committee, we applaud your initiative to heighten interest and attention on exporting by small companies. Specifically, the recommendation to create an Assistant United States Trade Representative position for small business issues, and the recommendation to appoint an Associate Administrator in the SBA to be in charge of overseeing all trade policy and programs and to coordinate efforts with other agencies, would certainly appear to help accomplish those objectives.

Regarding trade-related positions in Louisiana, it is our understanding that SBA may assign a Financial Trade Specialist to work out of the Export Assistance Center, where in fact there previously was such a staff person some years ago. Any additional staff that can be assigned at this time to help overall export promotion in Louisiana, and in this case for the purpose of assisting small business, would be most welcome. We would also suggest that the individual assigned to that position be equally knowledgeable about the basic export process as described earlier so that the person can assist in overall export training, and not be strictly limited to helping exporters on SBA export loans.

We also are aware that the Export Assistance Center in New Orleans is short at least one Trade Specialist at this time, and filling that position also would be most important in terms of further assisting exporters as well, and particularly new-to-market small companies that have a good export potential. We would make the same recommendation as above insofar as that staff person have a good grounding in the details of the export process, including documentation and procedures.

Again, thank you for holding the Committee's hearing in New Orleans today and for giving the World Trade Center the opportunity to present this testimony. We stand ready to assist you and the Committee in your ongoing efforts to advance the United States' international trade position.

