

**Testimony of James Sanford
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**Before the Senate Finance Committee
Hearing on “Trade and Tax Issues Relating to Small Business Job Creation”
Room 215, Dirksen Senate Office Building
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Chairman Baucus, Ranking Member Grassley, members of the committee, thank you for convening this hearing today. I appreciate the opportunity to provide testimony on the efforts of the Office of the U.S. Trade Representative to expand exports of U.S. small and medium-sized businesses, create well paying U.S. jobs, and promote sustainable economic growth.

As the President announced in his State of the Union address, agencies across the federal government are teaming up under the National Export Initiative to create jobs by expanding exports. USTR’s role in the National Export Initiative is reflective of our role as an agency – to tear down barriers to trade and open up new opportunities for American businesses to grow and create jobs through exports. In our efforts, USTR is partnering with the Small Business Administration (SBA), the Commerce Department, the Export-Import Bank, and others across the federal government to provide American businesses the resources and the opportunities they need to succeed.

America’s 30 million small businesses form the backbone of our economy. Over the last 15 years, approximately 65 percent of net new private sector jobs were created at small businesses. And small businesses that export tend to grow even faster, create more jobs, and pay higher wages than small businesses that do not.

But studies show that only one percent of U.S. small and medium-sized enterprises (SMEs) are currently exporting. And even though small and medium-sized businesses account for 97

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percent of American exporting companies, their exports account for only 30 percent of the total U.S. goods exported. Most small and medium-sized exporters sell their goods to only one foreign country and to only one customer in that country. So there is vast room for growth that we need to tap.

USTR is doing its part to tap that growth. For the past year, Ambassador Kirk has been reaching out to workers and small business owners across the country. From Kalispell to Atlanta to Des Moines, workers and small business owners have repeated the same message. Small businesses must export and compete globally to ensure long-term growth and success. Ambassador Kirk heard that message loud and clear, which is why he is committed to the goal of creating more jobs at home by helping more small businesses to sell American goods and services around the world. And USTR is taking concrete steps to make that happen.

Last fall, USTR launched an initiative re-examining our trade policy and enforcement efforts to ensure that we are being responsive to the challenges and priorities of small and medium-sized businesses and their workers. And as part of this initiative, last month Ambassador Kirk designated me as the Assistant U.S. Trade Representative to help coordinate small business interests within the agency. The success of small and medium-sized businesses is a priority for everyone at USTR – but the designation of an office to coordinate initiatives among all our offices and serve as a focal point for small business will aid our efforts. Working with Congress and other agencies across the government, our objective is to both increase the number of small and medium-sized businesses that export and to expand the number of markets and customers served by the SMEs that do export.

Snapshot of the Role of SMEs in U.S. Exports

The U.S. economy is increasingly integrated with the global economy. In 2008, U.S. exports accounted for 13 percent of the U.S. GDP – up from 9.3 percent in 2003.

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SMEs accounted for 30 percent of U.S. merchandise exports between 1997 and 2007 – and SME merchandise exports doubled in value from \$153 billion to \$307 billion during this period.

Much of the growth in SME manufactured goods exports was attributable to SMEs that were new to exporting. The leading merchandise export markets for SMEs are Canada and Mexico – and the principal products exported are computers and electronics products, machinery, and chemicals.

The potential for SMEs to increase services exports is also significant. Overall U.S. services exports nearly doubled in the ten years between 1999 and 2008 and now constitute 30 percent of total U.S. exports. However, the SME share of these exports is unknown because of a current lack of available SME services-sector trade data. We face a similar information gap with respect to the role of indirect exports in sustaining and strengthening our SMEs.

We know small businesses can be successful exporters. Businesses all across the country – from a small manufacturing company that sells Montana-made mining equipment on every continent except Antarctica to an Iowa-based nutritional products company with customers in more than 40 countries – are succeeding in the international marketplace. But to ensure more small business export successes, we need to know more. At Ambassador Kirk's request this past October, the International Trade Commission is now identifying how such data gaps might be overcome to further enhance our understanding of SME exports.

Identifying the Challenges Facing SME Exporters

In order to better understand the key challenges that are constraining U.S. SMEs from fulfilling their export potential, we have reached out widely to trade associations and individual companies, from the National Association of Manufacturers, to the National Small Business Association, to individual SMEs such as Traffax, a Maryland-based transportation monitoring equipment exporter. And we are consulting economists inside and outside the government, and our interagency partners, in an effort to identify the key barriers.

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When compared to larger companies, SME exporters generally face particular challenges that may limit their ability to take full advantage of export opportunities. SMEs often have limited in-house resources available for understanding foreign markets and how to comply with specific foreign regulatory or documentation requirements. Access to financing to support exports can be another important constraint for SMEs. For such firms, exporting is often viewed as a venture associated with greater risks and higher transaction costs than domestic sales.

For example, firms frequently must subject their products to testing to demonstrate compliance with foreign regulatory requirements. For large firms, this fixed expense is absorbed across a large number of sales. But SMEs often face higher relative costs to comply with foreign product regulations because of smaller or infrequent sales. Situations such as these can deter SMEs from taking full advantage of overseas opportunities.

Through our recently expanded small business initiative, USTR is fighting many of these barriers to SME exports. We are reaching out actively to a broad range of business representatives and soliciting input on SME trade challenges and opportunities. We continue to gather insights and suggestions from U.S. business. And we are working with our trading partners to reduce costly trade obstacles such as unnecessarily complex and/or costly foreign standards and regulations, a lack of transparency in some markets, and burdensome customs procedures. These issues all raise the costs of exporting for SMEs, in particular.

I would like to outline more fully some of the concrete steps we are undertaking at USTR to better understand the challenges facing SMEs and how we can better address them in our trade policy activities:

- USTR agency-wide review of SME-related activities: Starting in October 2009, USTR launched an agency-wide review of our policymaking and enforcement efforts in relation to SMEs. USTR is prioritizing the particular barriers confronting our small and medium-sized exporters when we deal with our trading partners. Through our trade agreements and policy dialogues, we are examining ways to tackle obstacles to trade that loom

particularly large for small and medium-sized businesses – issues like cumbersome regulatory processes, complex rules of origin for goods, and requirements that force companies to open offices in foreign countries.

- Request for ITC Studies on SMEs: Last October, Ambassador Kirk requested the U.S. International Trade Commission to prepare a series of three reports on U.S. SMEs in international trade in order to better understand SME performance and to help guide U.S. trade policy and trade promotion activities. In January, we received the first ITC report on the role of small and medium-sized businesses in U.S. trade. Our agency-wide small business working group is combing through those results for insights into how trade policy can help small and medium-sized exporters reach their export potential. The second report, to be issued in June, will provide a comparison of U.S. SME performance with SMEs in the European Union. And the final report, to be delivered in October 2010, will examine SME services trade, key tariff and non-tariff barriers that may disproportionately affect SMEs, and the role of indirect exports (*i.e.*, SMEs that provide inputs to larger firms that export the final product).
- USTR-hosted SME Conference: On January 21st, Ambassador Kirk hosted a conference titled “Jobs on Main Street, Customers Around the World: A Positive Trade Agenda for U.S. Small- and Medium-Sized Enterprises” at the Peterson Institute for International Economics in Washington D.C. Attended by over 200 participants, speakers also included SBA Administrator Karen Mills, Deputy Secretary of Commerce Dennis Hightower, and Deputy U.S. Trade Representative Miriam Sapiro. The event featured three panel discussions with leaders of small businesses from Florida, Indiana, Maryland, Montana, New York and around the country focused on trade opportunities and challenges confronting SMEs, including key constraints as well as possible Administration policy and trade-promotion activities that could support increased export activity by SMEs.

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- USTR SME week: In addition to the conference, USTR conducted an agency wide program of activities in January focused on SME outreach and meetings with industry groups and organizations designed to yield insights into the specific trade policy challenges and priorities of small businesses.
- Increased SME Representation on Industry Trade Advisory Committees: USTR and the Department of Commerce are bringing more small and medium-sized businesses to the table through our advisory committee system. More than 100 have joined us and are actively sharing their ideas for a trade policy that benefits all small and medium-sized enterprises.
- Collaboration with SBA, Commerce, Export-Import Bank: USTR is pursuing closer collaboration with our trade promotion and trade financing agencies to improve the integration of these activities with our trade policy efforts to support SME interests.
- Expanded SME Stakeholder Outreach: Under Ambassador Kirk's leadership, we are broadening our business outreach beyond the traditional trade circles to better understand SME trade policy concerns and challenges. Expanding our business outreach to better tap into SME sources supports our efforts to more effectively address SME interests in our trade policy development and implementation.

Moving Forward

USTR is actively working to identify specific trade policy tools and activities that offer particular potential benefits for American small and medium-sized firms.

As part of our negotiations to expand U.S. trade in the Asia-Pacific region through the Trans-Pacific Partnership, we will have a point person for SME issues, and we will consistently emphasize the needs of smaller businesses – as well as small business issues like competitiveness and transparency – alongside traditional negotiation topics.

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As an agenda priority in the Asia Pacific Economic Cooperation forum priority, we are seeking to make it cheaper and easier for companies, and particularly small and medium-sized businesses, to trade in the region. APEC is also working on making trade documentation and procedures more consistent across all APEC economies, and has launched an initiative to improve the transparency and accessibility of tariff and other customs-related information. APEC has also recently launched a multi-year initiative to improve the regulatory environment for doing business in APEC economies. We will be looking to increase activities in APEC that will help SMEs by seeking to rationalize complex and divergent trade rules, and reduce transaction costs.

We are also seeking to establish, as appropriate, free trade agreement (FTA) working groups on small and medium-sized enterprises to facilitate expanded SME trade opportunities with our FTA partners. We will look to use the fact-finding and consultation mechanisms built into our bilateral and regional free trade agreements to help SMEs increase trade opportunities and confront trade barriers. As part of these activities, we plan to invite SMEs from U.S. and FTA partner countries to provide input on the benefits and challenges to SME trade under our FTAs.

Our FTAs offer valuable export opportunities for U.S. SMEs, and are part of USTR's overall export promotion initiative. In addition to engaging in negotiations to conclude the TPP, USTR will continue to work to address outstanding concerns regarding the pending FTAs with Panama, Colombia and South Korea. FTAs with each of these countries offer valuable export promotion opportunities for SMEs, and approval and implementation of the pending FTAs is an important priority in the Administration's export promotion agenda.

In large developed markets, such as Europe and Japan, regulatory barriers reduce prospects for even larger sales by U.S. SMEs. The Transatlantic Economic Council and the US-Japan Regulatory Reform Initiative both provide high-level venues for follow-up. And our broad array of Trade and Investment Framework Agreements (TIFAs) offers policy vehicles for addressing trade barriers identified by SMEs in many markets.

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In April and May, USTR will issue a series of annual reports detailing specific trade issues of concern, including our National Trade Estimates Report, Special 301 Report (IPR), Section 1377 Report (Telecom), and our new reports detailing technical and sanitary and phytosanitary barriers to U.S. exports. The results of these reports will help identify key barriers to be addressed in our policy initiatives.

And in addition to these market access activities, we are focused on robust enforcement of the commitments other governments make to us under our trade agreements, including both our FTAs and the various WTO agreements. When unfair trade practices inhibit the ability of small and medium-sized exporters to get their goods and services into global markets, we are committed to knocking them down – through negotiations if possible and legal action if necessary.

Conclusion

The global economic downturn has adversely impacted all of our business sectors. Our efforts to expand U.S. exports have a critical role to play in advancing our economic recovery and the creation of quality jobs at home. USTR is committed to helping more small and medium-sized businesses take advantage of opportunities to sell American goods and services around the world. Working with other agencies across our government under the National Export Initiative, we will strive to remove foreign barriers and open up new markets for companies of all sizes, with special attention to the obstacles that SMEs confront.

Our objective is that the next time Ambassador Kirk travels to your states he'll meet more of your businesses leaders who are exporting.

Thank you for this opportunity to outline USTR's efforts to expand exports of U.S. small- and medium-sized businesses and support the creation of quality jobs.