

THE PRESIDENT'S EXPORT COUNCIL
WASHINGTON, D.C. 20230

March 11, 2011

President of the United States of America
The White House
Washington, DC 20500

Dear Mr. President,

The President's Export Council believes that increasing the capacity of Small- and Medium-sized Enterprises (SMEs) will be vital to achieving the National Export Initiative's goal of doubling U.S. exports by 2015. U.S. SMEs are typically credited with creating 3 of every 4 of our Nation's jobs and SME exporters (which currently account for an estimated 4 million U.S. jobs) typically grow significantly larger and faster than non-exporting businesses.

While companies both large and small face many similar barriers in exporting, SMEs face particularly unique difficulties that require targeted action. The PEC SME Business Engagement Subcommittee conducted five Roundtables across the country over the past five months to gather and assess first-hand feedback from SME exporters. These roundtables inform and drive the three sets of recommendations the PEC is presenting in this letter:

I. Education:

Unique to SMEs – the vast majority of which have fewer than 20 employees – are significantly elevated time and resource constraints that are impeding access to necessary exporting information, education and resources.

- 1. Challenge: Disparate Education and Resources.*** Hundreds of local, state and federal organizations and agencies are engaged in export outreach, marketing and education efforts. Although these resources are closely coordinated through interagency working groups such as the Trade Promotion Coordinating Committee (TPCC), they are unable to reach all of the ~28 million small businesses that exist. As a result, findings by the SME Subcommittee at each of the regional Roundtables indicate prominent and persistent education gaps and confusion among SMEs on a broad range of export-related issues. As the Export Promotion Cabinet already has noted, coordinating, leveraging, and targeting resources across all levels of government will be crucial to achieving your National Export Initiative (NEI) goals.

To address this issue, as noted in the Report to the President for the NEI, the Small Business Administration (SBA) in cooperation with the TPCC is launching "export outreach teams" around the country to encourage greater regional collaboration for export service providers at the federal, state and local level. Additionally, the Department of Commerce is working actively with the State International Development Organization to conduct a complete survey of current export promotion programs provided by states. This survey, which should be updated on an annual basis, will help ensure that efforts to help companies are complementary and not duplicative. Efforts to further leverage education, training and counseling include the Small Business Working Group (SBWG) of the TPCC, which is fully engaged with using SBA's

resource partners including SCORE, Small Business Development Centers (SBDCs) and Women's Business Centers (WBCs) as the focus for referring SMEs in need of technical assistance for exporting. The revised Export.gov portal also contains an assessment tool to determine the direction for referring SMEs, relative to their experience or lack thereof in exporting; the NEI "Road Shows" incorporate outreach with public and private-sector resources on SME exporting education; and the new State Trade and Export Promotion (STEP) grant program manifests public-private-sector participation in educating SMEs on trade.

Recommendations for "Local NEIs" Public-Private Partnerships.

- a. The PEC recommends that the referenced coordination efforts be targeted particularly at minority-owned SMEs in the Nation's Top 25 Exporting Cities and Top 10 Exporting States. This first-strike target holds significant potential: Department of Labor reports approximately 4.1 million minority-owned firms in the U.S. account for more than \$668 billion in gross annual receipts; between 1997 and 2002, the growth of minority-owned firms outpaced the national rate 3-to-1. Using this inventory, Minority Business Development Agencies should be utilized to coalesce all stakeholder groups and convene quarterly meetings designed to develop a clearly streamlined structure and stronger public-private educational outreach partnerships to help SMEs navigate available resources. Pilot programs for the streamlined models can be tested in key exporting regions such as California, Florida, Iowa, New York, Texas and Washington.
 - b. Federal government should provide catalyst grants to foster regional export development strategic planning among identified chambers, Economic Development Centers, academia, state and local governments, non-profits and the private sector to establish organizational coordination and create formal lines of communication between regions and federal resources. This "Regional Export Initiative" will ensure ongoing cooperation and coordination between key regional export leaders and the federal government; improve communication to regional partners; and ensure federal resources are being utilized in the most cost-effective and impactful way (moving away from competition between regional partners). Allow the SBA's recently announced State Trade and Export Promotion grants - which enable states to apply for a grant to help increase the volume of small businesses that export and to help them increase the amount that they export - to apply to this effort. We believe that additional resources should be committed throughout the federal sector to engage this critical topic of increased education and training on the opportunities and rewards for exporting.
2. **Challenge: Access to Information.** SMEs are uniquely time-constrained and resource-limited; they have little ability to sort through dozens of agencies, rules, processes and procedures – and even less time to wait for agency clarifications and information. It is clear your Administration recognizes the importance of facilitating access to information and has made significant advances to cultivate "virtual" interaction with Export.gov, the U.S. Department of Agriculture Foreign Agricultural Service's FAS.USDA.gov, and the U.S. Trade Representative's USTR.gov. The TPCC agencies have agreed that the Export.gov portal be the primary resource for referrals on trade promotion and finance information. Yet SMEs across the country express difficulty

finding the trade and export information they need. It is therefore apparent that the problem is not a quantifiable lack of information but, rather, a lack of expansive tools that ease SME access to that information when, where and how they need it. This must also be balanced with the need by many SMEs for sustained, in-depth management and technical assistance.

Recommendation: Enhance and Expand On-Demand Information. Development of new – and maximization of existing – public-private partnerships should be accelerated to continue expansion of on-demand informational/educational resources on export and trade Web channels-including Tradegov, Youtube videos, FAS.USDA.gov, Export.gov and USTR.gov. Model series of Webinars in key topic areas can be developed in partnership with those programs and tested in key markets. In a 24/7 global economy, flexible access to information is key for SMEs, which often only have limited “after-hours” time available. Development is recommended of a live pilot “hotline” or on-demand chat with central export counseling experts, potentially using DOL’s “Ask JAN” as a model that has seen some success in its targeted market. The SBA is pushing forward in this direction with its new portal on SBA.gov for online training and exporting tools. SBA also is increasing its podcasts on globalization topics. Export.gov also is pushing forward in this direction with its re-engineering as the primary portal for all of the TPCC agencies, providing an exporter assessment (state of export readiness) and all resources of the TPCC agencies in a single location.

- 3. Challenge: Continuing Misperceptions about FTAs.** There is a significant disconnect between exporting SMEs and non-exporting SMEs – which comprise much of the economic landscape - on the economic benefits of Free Trade Agreements. This is evidenced by continuing general public resistance and misunderstanding regarding FTAs. FTAs are critically important to SMEs; the costs incurred to ship goods to foreign ports where the U.S. does not have trade agreements are prohibitive in many cases. However, U.S. sales to foreign ports have steadily increased over the past 3 years; exports were up 17% in 2010. The most believable voice to win the hearts and minds of SMEs on the quantifiable and tangible benefits of FTAs are SMEs themselves.

Recommendation: FTA Education/Outreach Program for SMEs. Acknowledging budgetary concerns, we recommend working with existing educational outreach, concerned organizations like National Institutes of Standards and Technology (through their Manufacturing Extension Partnership) and National Association of Manufacturers, as well as some of the Nation’s top global exporting corporations, to expand their current education efforts. In addition, each of the TPCC agencies is a member of the TPCC Small Business Working Group, where a collaborative, interagency marketing and outreach initiative will maximize SME exposure to U.S. government resources in stimulating SME participation in global trade and increase market penetration for existing SME exporters. Again, public-private partnerships should be aggressively engaged and leveraged to identify local-level SMEs who can validate and share compelling stories - via a broad spectrum of social networking, traditional marketing and other educational outreach platforms – and illustrate the real-world benefits of FTAs to the general SME market. We stand ready to assist with the “New Markets, New Jobs” outreach initiative to expand its local and regional impact. Execution of messaging should seek to engage more SMEs in general, but also target specific, underrepresented and FTA-resistant sectors and industries according to region.

II. Access to Capital:

Difficulty in accessing credit has been consistently cited by SMEs as one of the biggest barriers limiting their growth and increased presence in the global markets. This issue has also resulted in a dampening of job creation by small businesses.

1. ***Challenge: Current loan initiation process lacks transparency and takes too long.*** Banks are, by their very nature, risk-averse and geared to generate profits in the most efficient manner. Therefore, credit decisions are often made not based on the merits of the underlying export transaction but rather on the potential profit to be derived from the loan; loans that are too small or not profitable enough to the lender are not made even though the export transaction itself bears negligible risk to the lender. SMEs have limited visibility to non-bank lenders who are willing to work with SBA and Ex-Im Bank loan guarantees and small community banks lack the necessary knowledge to properly deal with trade finance. Last, Ex-Im Bank processing time for issuance of export credit insurance policies and loan guarantees is often too long, with exporters continually losing international sales deals as a result.

Recommendations:

- a. The SBA is already taking some positive steps to increase visibility by posting a comprehensive directory of lending partners that conduct export financing and processing. The Small Business Jobs Act of 2010 further improved terms and conditions of small business export financing by raising lending limits to \$5 million and increasing guaranties on SBA's 3 finance programs for exporters to 90%. However, these and other efforts are largely lost on SMEs who lack the resources to navigate through bureaucratic networks. More prominence must be given to the initiatives undertaken by the Small Business Working Group of the TPCC: Expedite the increase in delegated lending authority to existing trade finance lenders (as noted in the Small Business Jobs Act of 2010); conduct finance trade training to community banks to include receptivity to working with smaller exporters; and working more closely with small businesses in training them to prepare documents for international transactions before going to their financial institutions. We encourage the SBA to accelerate its collaboration with the Office of the Comptroller of the Currency regarding the trade finance outreach and training proposals for community banks.
- b. We also encourage collaboration – and expedited implementation of - innovative new programs such as (1) the Goldman Sachs 10000 Small Business Initiative where SMEs are provided with education, business support services that focus on a business' financials and help increase sophistication of SMEs in being ready to access capital, as well as alternative financing models in partnership with Community Development Financial Institutions (capital component of the 10000 Small Business Initiative), which allows for more flexibility in funding decisions made at the local level; and (2) The SBA new loan program called Community Advantage, which is aimed at increasing the number of lower-dollar SBA 7(a) loans going to small businesses and entrepreneurs in underserved communities through CDFIs.

- c. More underwriters are needed at Ex-Im Bank and these underwriters need increased authority to speed up the process. In addition, Ex-Im Bank needs to increase its marketing efforts; it should send a strong message to U.S. exporters that export credit insurance is a very effective marketing tool. Exporters can offer longer payment terms without increasing their risk of non-payment. The expected result would be increased U.S. competitiveness and increased exports.
2. **Challenge: Lack of support for Young Small Businesses.** Companies in business for less than 3 years are statistically best at job-creation but they also have the highest rate of failure. It is during this start-up stage that SMEs could benefit most from programs designed to support their development and growth, however the opposite is often true – young SMEs lack the internal resources (staffing and time) to determine what if any programs are available to them and typically face more difficulty in accessing credit. A specific disadvantage of young firms is that they cannot point to credit histories which help facilitate access to debt financing; young companies would also lack to a greater extent the profitability and collateral typically expected by banks before establishing credit for a company.

Recommendations:

- a. Establish formal “incubator” programs at the Federal government level that specialize in working with young SMEs to fund the working capital and export finance needs during the start-up process. The programs could be designed along the lines of existing programs at State level that assist SMEs for up to a five-year period or until they become “bankable” on their own. These programs match SMEs to lenders, assist with SBA or Ex-Im Bank applications, and largely deliver credit decisions based on the merits of the underlying export transactions, not the perceived risk of default on the part of the borrower. These programs also offer funding for deals that are considered too small or not profitable enough for traditional bank lenders.
- b. It is equally important to develop the leadership of these young businesses and we therefore encourage a partnership of the SBA with Community Colleges and their trade associations to provide the infrastructure for broader utilization of the Young Entrepreneurship Programs (YEPs). YEPs provide a support structure for young new business owners—in accessing business support services, coaching, and partnering with private organizations whose mission it is to provide start-up capital and funding to young entrepreneurs. To strengthen results YEP should add a priority focus on business owners who have particular focus on international markets. Incubators are a perfect example of a private-sector resource that helps develop sustainable small businesses. The SBA provides a comprehensive program and website portal under the domain of Entrepreneurial Development to enhance the skills and knowledge of the younger entrepreneur and small business operator and needs to engage higher education institutions, business associations and other local partners in promoting these excellent web tools and online training modules.
- c. We must work to create stable and predictable programs, with higher priority given to companies that have exports and international markets as part of their business plans. While we commend the Administration’s efforts towards supporting innovation and

entrepreneurship with the launching of the “Startup America” program in January 2011, we believe that more could be done and that more immediate help is needed. The \$50 million in funding for grants to Small Business Development Centers (SBDCs) included in the Small Business Jobs Act of 2010 is also a welcome initiative, however, this represents one-time-only funding while most (almost 70 percent) OECD programs geared to support SMEs last for more than five years as it is recognized that stable and predictable programs are essential to long-term success.

III. Regulatory and Cost Burden

1. ***Challenge: Cumbersome export compliance policies/procedures.*** Analysis suggests that, due to its “fixed-cost” nature, the cost burden of regulations can be disproportionately greater on SMEs vis-à-vis the financial impact on larger firms, as smaller firms tend to have less capacity to navigate through the complexities of regulatory and bureaucratic networks. The regulatory burden and the asymmetric impact of fixed costs were recurring concerns at every Roundtable conducted thus far; they place SMEs at a competitive disadvantage in relation to larger firms and increase the risk of non-compliance. Significant steps have already been taken by the Administration to define a process and formulate a vision for a reformed U.S. export control system with a Single Control List, Single Primary Enforcement Coordination Agency, Single Information Technology (IT) System, and Single Licensing Agency. We commend your leadership in launching this effort and recognize that reform of this nature cannot be rushed. However, if SMEs are to achieve their expected contribution towards meeting the NEI goal of doubling exports they will need assistance in dealing with the regulatory burden, even if this assistance is provided as incremental steps.

Recommendations:

- a. Expedite Export Control and Regulatory Reform Initiatives. To the extent that it is possible, a formalized timeline and milestones should be developed for completion of the Reform process, so that progress can be measured against this timeline and additional resources allocated towards this effort if the milestones are not met when expected.
- b. All efforts should be made to create a centralized resource where small businesses would be able to find guidance on all matters related to exporting including international trade regulations. We recognize that steps have been taken under the TPCC to make Export.gov the single portal to service U.S. companies in all matters of exporting, as well as better utilization of the U.S. Export Assistance Center. We commend you on incremental successes such as consolidating lists of all proscribed parties regardless of the agency that regulates them under this portal. However, if these efforts are not known, they are useless. What’s called for is an expansive advertising, outreach and communications campaign to advertise to small businesses that Export.gov is the place to go for guidance and support. Agreements should be reached with the most-utilized Search Engine services so that any query initiated in the U.S. with the keyword “export” returns Export.gov as the top-ranked site for assistance in this area.

c. SMEs also need to be better educated about the export control process. We suggest that the Small Business Development Centers (SBDCs) together with the SBA and the Bureau of Industry and Security (BIS) become more actively engaged in this educational endeavor. The SBDCs are already in touch with the base of smaller newer exporters who are the ones in most need of this assistance. If the U.S. successfully reforms its export control program, an estimated 340,000 new jobs could be created and exports could increase by \$60 billion when considering only market share losses where goods and technologies are widely available from other countries (in other words, without compromising any National Security concerns).

2. **Challenge: Cost of IP registration, maintenance and enforcement is prohibitive for SMEs.**

The initial costs to register trademarks, patents and other forms of Intellectual Property are inordinately high for SMEs. SMEs typically limit their registration and maintenance of IP to countries of their highest sales or where they feel most vulnerable, thereby either bypassing or exposing themselves in other markets. Some SMEs take the risk and sell in "unprotected" markets while others forego many markets due to this cost and risk. In addition to registering and maintaining marks and patents, SMEs also are often in a weak position to enforce or challenge infringements to their IP.

Recommendation: Work within the World Trade Organization and within trade agreements to improve the simplicity, speed and cost of registering and maintaining all IP. We recommend a program be started to reduce the cost to SMEs and/or provide financing for registration of all IP. We recommend increased SME targeted marketing and outreach of the Patent Prosecution Highway, a program led by the U.S. Patent and Trademark Office and international partners that provides companies with an avenue to rapidly build their IPR portfolios in multiple jurisdictions at significantly lower prosecution costs. We encourage the USTR, the Overseas Private Investment Corp. (OPIC), or other appropriate trade agencies of the U.S. Government to introduce an insurance-type policy that SMEs could purchase and tap for potential legal and related costs in cases of IP infringement.

3. **Challenge: Rules of Origin are complex and inconsistent, making it difficult for SMEs to be export compliant and/or take advantage of FTAs.**

SMEs do not have the staff to manage or the leverage with suppliers to gain proper origin information from their respective supply chains. Many SMEs are in the difficult position of being knowingly or unknowingly non-compliant in terms of certifying origin of parts contained in their export shipments. Furthermore, rules of origin can differ from country to country and from FTA to FTA in terms of content, methodology, and which party is responsible for certifying. With penalties including fines, revoking of export rights, and potential criminal charges, many small business owners believe exporting, for this reason alone, is not worth the risk.

Recommendation: We recommend that the Administration review rules of origin and related procedures in U.S. FTAs with a view to simplifying and harmonizing these rules. Addressing these differences would also go a long way in being able to simplify the message to the exporting community of how rules of origin apply. We also recommend that penalties be more commensurate to the size of exporter.

Mr. President, by definition, Small and Medium-sized Enterprises often lack the resources available to large businesses, therefore while the issues affecting SMEs could be said to impact businesses large and small, they do so in an unequal manner, as the burdens of exporting can and do have a disproportionate effect on SMEs. It is therefore critical that as specific programs are rolled out under the NEI, special consideration needs to be given to easing the burden on SMEs so they can unlock their full export potential.¹

Sincerely,

A handwritten signature in black ink, appearing to read "Jim McFenerty". The signature is written in a cursive style with a large, sweeping initial "J" and "M".

¹ Please note that this letter has been prepared by the private-sector appointed members of the PEC.