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

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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.