

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

Memorandum

To: Members, Subcommittee on Agriculture, Energy, and Trade
From: Committee Staff
Date: February 16, 2016
Re: Field Hearing: "Overcoming Challenges to Exporting for Small Businesses"

On February 22, 2015 at 2:00 p.m., the Subcommittee on Agriculture, Energy, and Trade will conduct a field hearing at Bramson Ort College, 69-30 Austin St, Forest Hills, NY 11375. The hearing will examine the hurdles that small businesses face in entering the international trade arena and the steps policymakers can take to increase exports and expand the role of United States small businesses in global markets.

I. Background

International trade in goods and services was nearly \$5.0 trillion dollars in 2015, up from \$2.5 trillion in 2000.¹ Exports accounted for nearly \$2.2 trillion and have more than doubled since 2003.² The United States International Trade Commission (ITC) estimates those exports helped support nearly 10 million jobs, including about 4 million small business jobs.³ Thus, small businesses have a vested interest in the development and results of international trade policy.

To boost the ability of small businesses to enter the global markets, the United States enters into a variety of agreements that seek to reduce barriers to international trade. These agreements are aimed at: reducing both tariff and non-tariff barriers⁴ in foreign markets; creating new market opportunities for domestic exporters; and strengthening trade enforcement regimes, including those that protect intellectual property (IP). Examples of these policies include free trade agreements (FTAs), bilateral investment treaties (BIT), trade preference programs, and multilateral trade agreements.

The Office of the United States Trade Representative's Office (USTR) is responsible for developing and coordinating international trade, commodity and direct investment policy, and overseeing

¹ <http://www.census.gov/foreign-trade/statistics/historical/gands.pdf>.

² *Id.*

³ ITC, SMALL AND MEDIUM-SIZED ENTERPRISES: CHARACTERISTICS AND PERFORMANCE xiv (2010) [hereinafter "ITC Characteristics and Performance"], available at <http://www.usitc.gov/publications/332/pub4189.pdf>.

⁴ Non-tariff barriers elude fixed definitions, but may be broadly defined as government laws, regulations, policies, or practices that; protect domestic goods and services from foreign competition; artificially stimulate exports of particular domestic goods and services; or fail to provide adequate and effective protection of intellectual property rights. <https://ustr.gov/sites/default/files/2014%20NTE%20Report%20on%20FTB.pdf>.

negotiations with other countries.⁵ Within USTR, the Office of Small Business, Market Access and Industrial Competitiveness is specifically responsible for the development of policy relating to tariff and non-tariff barriers affecting industrial goods, including negotiation, implementation, monitoring and enforcement of bilateral, regional, plurilateral and multilateral trade agreements.⁶ Recently, the USTR negotiated a regional, Asia-Pacific trade agreement, known as the Trans-Pacific Partnership (TPP) agreement which is awaiting congressional approval. The USTR also is negotiating the Transatlantic Trade and Investment Partnership (T-TIP) with the European Union (EU). The objective of both of these agreements is to shape higher standard, broad-based regional pacts that provide for additional open markets to American exporters.⁷

II. Background on International Trade Agreements

The foundation of trade agreements and policies begins with the World Trade Organization (WTO). Originally called the General Agreement on Tariffs and Trade (GATT), the WTO was created to deal with the rules of trade between nations.⁸ Specifically, the WTO settles trade disputes between nations. In addition, it provides a forum by which its members can reduce tariff and non-tariff barriers, enhance transparency, remove discriminatory practices, and strengthen protection of IP. The WTO forum for undertaking negotiations to develop new trade policies is denominated as the Doha Round,⁹ but currently there is no clear path to its conclusion.

Given the lack of progress in the Doha Round of negotiations, the United States and other nations have moved forward with other efforts to reduce trade barriers through the negotiations of bilateral and multilateral trade agreements outside of the WTO framework. Examples of these policies include FTAs, BITs, trade preference programs, and multilateral trade agreements. Currently, the United States has FTAs with 20 countries.¹⁰ The specifics of the individual agreements vary, but they all aim to reduce tariff and non-tariff barriers, thereby improving the likelihood of increased trade between the signatory countries.

III. Importance of Trade Agreements to Small Businesses

The most recent data from the Bureau of the Census identified 295,063 small business exporters in 2014, which accounts for nearly 98 percent of all exporters.¹¹ The ITC calculated that small businesses who exported averaged a 37 percent revenue growth from 2005 to 2009 compared to a decline of seven percent for non-exporting firms.¹² Despite the fact that the majority of United States exporters are small businesses, small firms only comprise 33 percent of the United States economy's exporting value.¹³ These statistics would be larger, but small businesses face a variety of trade barriers that limit their ability to compete in the export market.

⁵ <https://ustr.gov/about-us/about-ustr>.

⁶ <https://ustr.gov/about-us/organization>.

⁷ <https://ustr.gov/trade-agreements/free-trade-agreements>.

⁸ https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm. In 2013, Laos and Tajikistan completed their accession processes, bringing the WTO's total membership to 159.

⁹ The Doha Round is a common reference for the ongoing WTO negotiation that was launched in Doha, Qatar in 2001.

¹⁰ The countries are: Israel, Canada, Mexico, Jordan, Singapore, Chile, Australia, Morocco, Bahrain, Dominican Republic, El Salvador, Honduras, Nicaragua, Guatemala, Costa Rica, Oman, Peru, South Korea, Panama, and Colombia.

<http://www.ustr.gov/trade-agreements/free-trade-agreements>.

¹¹ <http://www.census.gov/foreign-trade/Press-Release/edb/2014/2014prelimprofile.pdf>.

¹² ITC Characteristics and Performance, *supra* note 3, at xi.

¹³ https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf.

Of the number of identified small business exporters, 39 percent have less than 20 employees and 55 percent have less than 100 employees.¹⁴ Of the small firms with less than 20 employees, 55 percent export to one market, and only 29 percent export to between one and to four countries.¹⁵ Given their limited resources, it becomes tedious for small businesses to navigate the tariff and non-tariff barriers that vary drastically from country to country in order to export goods and services. The benefits of bilateral or multilateral agreements outside of the WTO are obvious; even though there are 159 countries in the WTO, 47 percent of American exports went to the 20 countries with which the United States has a FTA.¹⁶ Strikingly, the United States holds a trade surplus in manufactured goods with FTA partners totaling \$55 billion in 2014.¹⁷ More FTAs will result in removal of trade barriers, reductions in tariffs, non-tariff barriers, and regulations that will enable more small firms to export, thereby growing their businesses and creating new jobs.

IV. Small Business Administration (SBA) Role in International Trade

The SBA is required to perform several functions to support small businesses navigating the obstacles to engaging in international trade. Although the SBA conducts outreach efforts to expand small business opportunities in global trade, its primary activity is to provide counseling and training on exports through various partner entities, including Export Assistance Centers (operated by the Department of Commerce and denominated as USEACs)¹⁸ and Small Business Development Centers (SBDCs) operated by nonfederal entities.¹⁹ The SBA also operates the State Trade and Export Promotion (STEP) program. Under the STEP initiative, the SBA awards grants to states with the goal of assisting eligible "small business concerns" with exporting. The program's objectives are to increase the number of eligible small business concerns in the state that export and increase the export volume of those eligible small businesses that already export.²⁰

a. Services provided by SBA Personnel

In addition to the counseling provided by SBDCs and USEACs, the Office of International Trade (OIT) at the SBA provides advice to small businesses seeking financial assistance to "fill market gaps that arise because private sector is unable to provide adequate credit to support certain export transactions with greater real or perceived risk."²¹ OIT also explains to small businesses the availability of export finance products offered through other agencies or entities such as those offered by the United States Export-Import Bank (Ex-Im).²² The explanation of such loan availability generally takes place at USEACs. Finally, the

¹⁴ ITC Characteristics and Performance, *supra* note 3, at 11.

¹⁵ *Id.* at 35.

¹⁶ <http://trade.gov/fta/>.

¹⁷ *Id.*

¹⁸ There are 19 of these centers located throughout the United States at which OIT specialists are located to explain assistance available from the SBA. <https://www.sba.gov/content/us-exports-assistance-centers>.

¹⁹ GOVERNMENT ACCOUNTABILITY OFFICE (GAO), EXPORT PROMOTION, SMALL BUSINESS ADMINISTRATION NEEDS TO IMPROVE COLLABORATION TO IMPLEMENT ITS EXPANDED ROLE 1 (2013) (GAO-13-217), [hereinafter "GAO SBA Collaboration Report"], available at <http://www.gao.gov/assets/660/651685.pdf>.

²⁰ <https://www.sba.gov/content/state-trade-and-export-promotion-step-pilot-grant-initiative-cfda-59061-1>.

²¹ SBA, FY 2016 CONGRESSIONAL BUDGET JUSTIFICATION 74 (2015) [hereinafter "SBA FY 2016 Budget"], available at https://www.sba.gov/sites/default/files/files/1-FY_2016_CBJ_FY_2014_APR_508.pdf. OIT has no regulatory role with respect to international trade loans available from SBA private lending partners. Such lending is overseen by SBA's Office of Capital Access.

²² GAO SBA Collaboration Report, *supra* note 18, at 7.

OIT is responsible for representing the SBA on the Trade Promotion Coordinating Committee (TPCC)²³ to aid in the implementation of the President's National Export Initiative (NEI) – one of the Administration's top trade priorities.²⁴

In addition to the personnel assigned to the USEACs, the SBA has designated a District International Trade Officer in each SBA District Office. Given that *nom de guerre*, one would think that their primary mission would relate to international trade. That conclusion would be incorrect as GAO found; their primary duties involve other functions and spend only 15 percent of their time on export promotion responsibilities ranging from attending outreach events and answering businesses' questions regarding exports.²⁵

b. SBA Financing Products

A function of the Administration's national export strategy is increasing small businesses' access to trade financing. The SBA participates by offering several financial products aimed solely at small businesses involved in international trade.²⁶

There are three prominent export loan programs offered by SBA. The Export Working Capital loan program is designed to finance a small business processing foreign transactions on exported goods and services with a maximum loan amount of \$5 million and 90 percent guaranty.²⁷ Small businesses also have the option of utilizing the International Trade loan program that also provides loans up to \$5 million in financing with a 90 percent guaranty.²⁸ The International Trade loan is for use by a business already engaged in exporting with plans to increase production. Finally, the Export Express loan program is offered through select SBA lenders²⁹ and such loans are applicable to a wide range of export activities by small businesses new to the exporting; Export Express loans offer "a 90 percent guaranty on amounts up to \$350,000 and a 75 percent guaranty on amounts up to \$500,000, the program offers lenders enhanced coverage in support of small business exporters."³⁰

V. Conclusion

As the evidence suggests, engagement in international trade is a cornerstone of a strong and expanding 21st Century economy. This hearing will examine the difficulties facing small businesses as they try to expand globally and steps that the federal government might take to reduce those barriers.

²³The TPCC is an interagency task force that coordinates and develops the Administration's government-wide export promotion plan. It consists of seven lead federal agencies and 13 additional agencies. The committee is chaired by the Secretary of Commerce and the Under Secretary of Commerce for International Trade. Furthermore, the TPCC has four main initiatives including, training, marketing, program integration, and information sharing.

²⁴ Exec. Order No. 13,534, 3 C.F.R. 198 (2010).

²⁵ GAO SBA Collaboration Report, *supra* note 18, at 7-8.

²⁶ SBA FY 2016 Budget, *supra* note 4, at 71-72.

²⁷ *Id.* at 72.

²⁸ *Id.*

²⁹ Export express loans only may be offered by lenders authorized to participate in the SBA's Express loan program.

³⁰ *Id.* at 72.