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William Bishop
Acting Secretary
United States International Trade Commission
500 E Street, SW
Washington, DC 20436

RE: Comments of the National Association of Manufacturers on Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms

Dear Mr. Bishop:

The National Association of Manufacturers (NAM) is pleased to provide comments on small and medium-sized enterprises (SMEs) and their export opportunities and barriers. The NAM is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. The ability of U.S. companies to export has always been a critical issue for the NAM. The NAM was founded in 1895 by a group of U.S. manufacturers seeking foreign markets for their products. Since then, NAM policies have supported the development and maintenance of a robust manufacturing sector that remains globally competitive.

We commend the U.S. Trade Representative for calling on the International Trade Commission (ITC) to investigate the performance and challenges of small exporters, and are pleased to provide information to inform the analysis by the ITC. We have also encouraged our individual member companies to participate in the regional hearings or submit written comments to provide the fullest picture of export issues and strategies for the ITC study.

Thousands of small NAM member companies are exporting products to customers around the world, and the ability of small companies to enter foreign markets has never been more important than it is now. As the global economy emerges from the deepest recession since World War II, growth is picking up in other parts of the world. For U.S. small companies to remain healthy and continue to be the engines for job creation that they have been in the past, it is critical to expand markets for their goods and services.

An estimated 60 percent of U.S. companies that export do so to only one market. These "accidental exports" are made through an internet sale, a single customer that may hear about a product through another company or trade show, or even, in the case of one NAM member company, the location of his annual vacation! The sale may or may not be recurring, but it basically does not require a marketing effort or the development of internal exporting expertise on the part of the exporter. In the case of many NAM members in this situation, these sales are often made to customers in English-speaking countries like Canada or the United Kingdom.

Leading Innovation. Creating Opportunity. Pursuing Progress.

The NAM has partnered with the U.S. Commercial Service for over five years to bring U.S. government export promotion services to our small member companies. We have an experienced Commercial Service officer posted at the NAM for a two-year rotation. Our current officer has worked with hundreds of our small companies to expand their exports. In the preparation of these comments, we reached out broadly to NAM small exporters for their experiences and advice.

Conditions Favoring SME Exports

Free Trade Agreements

Many small companies that produce only in the United States believe that free trade agreements (FTAs) make all the difference in their ability to sell into foreign markets. Without the ability or the desire to establish foreign production to serve local markets overseas, many small companies face high tariff and non-tariff barriers in fast-growing markets. One company said that the 60 percent upcharge they face in Brazil makes their products “unsellable” there. This is a company that now exports 30 percent of its production, so they know how it is done, but find these kind of price disadvantages impossible to overcome.

Many small companies export either solely or mainly to Canada or Mexico. Without NAFTA, this would have been much more difficult. When asked, a number of companies informed us that “NAFTA has by far been the most beneficial [of our FTAs].” Other companies pointed out that the lack of an FTA has put them at a huge disadvantage with their competitors from the European Union (EU) or other countries that may have an FTA in place. For example, one said, “Free trade agreements to which the USA is not a party will often hinder our exports.” Another company noted that in some of our FTA partner countries, like Australia, the real benefit has been regulatory consistency, rather than tariff reduction.

Value of the Dollar

Many companies noted the importance of a dollar that is in better alignment with other global currencies. The overvalued dollar of 1997-2002 hit small companies’ exports especially hard. Small companies do not generally have tools - such as currency hedging and global operations – that large companies use to weather such periods of currency misalignment. One company put it succinctly, “Dollar goes down, my exports go up. It’s as simple as that.”

Issues for SMEs that Export

Finding Markets

Experience has shown that SMEs face a number of the same issues faced by large companies, but their limited staff and resources make the issues more acute. Sometimes these issues present market access barriers that prevent small companies from participating in markets altogether.

The most basic issue faced by small companies is finding markets for their goods. Employees and management of small companies wear a number of hats, and many companies do not have the resources devote exclusively to international sales. So at the most basic level, finding customers, distributors and agents in foreign countries can be a daunting challenge for many small companies.

Several companies expressed the desire to expand their exports, but noted that they did not know of other markets for their goods. These are companies that could be “quick wins” in increasing exports. One of them already exports to Australia, the United Kingdom, South America, South Africa and Israel. They are experienced exporters, who with some assistance in locating new distributors, could quickly add new markets to their sales. They do not require the lengthy process of developing export readiness.

In searching for new customers or distributors, companies have pursued a range of strategies. One of the most important is the development of a good website that allows them to find customers on the internet. The most sophisticated include options for foreign language translation, and the companies train sales personnel to correspond in a range of languages to follow up on inquiries.

Another CEO talked to us about asking colleagues in companies that produce compatible, but not competing products, for recommendations on agents or distributors. What they found is that this strategy worked best – the distributors could easily add their product, they had many of the same customers, and their success with other U.S. companies was a method of vetting the distributors.

Working with state agencies and federal Export Assistance Centers (EACs) that do export promotion are often cited as beneficial to small companies. The Commercial Service has developed a number of excellent programs to assist them in finding new markets: country-wide market research reports; the International Partner Search (IPS) that finds local distributors or agents; and the Gold Key Service that sets up one-on-one meetings – an individual company trade mission of sorts.

These are all excellent programs, but there remain several challenges to small companies’ use of these tools to export. The first is knowledge that they exist. Many NAM small exporters are aware of and use these services, but too many small companies are totally unaware of U.S. government resources available to them. In addition, with the exception of market research, there are fees charged for these services that, especially in the current difficult economic climate, discourage companies from using them. A number of companies that have used the services in the past indicated to us that now it is harder to justify any additional expenditure when they have laid off workers and cut back wages or benefits. When asked if they would be more likely to use the services if they were free or fees were tied to ultimately successful contracts, they all said, “Yes.”

Standards and Regulatory Issues

This is the single issue we heard most about from our small exporters when asked about the challenges they face in foreign markets. They cited the difficulty in staying current on changed regulations, and the high cost of compliance through testing or product modification for export markets. In general, the volume of goods sold does not justify the high costs.

Many companies said there are markets that they simply cannot or will not enter as a result. These problems are especially acute in European markets, which should otherwise be promising ones for U.S. goods, given the current cost advantage of the dollar-euro value and the desire among European companies and consumers for high quality products.

A few examples from small companies:

“The [EU] playing field is very unlevel in terms of the hoops we must jump through to make U.S.-made equipment pass their regulatory muster. That is not the case in any of the many other countries we export to.”

“To get a CE label, I would have to change my design and the product would cost more. I couldn’t ruin my American market by standardizing on a more expensive [product]...I wouldn’t have enough sales to justify a special product only for Europe.”

“The RoHs regulation is one example of...placing requirements without any thought for the cost of compliance.”

When asked if there were strategies to work through these standards challenges, a number of companies indicated that the hurdles are insurmountable. They simply don’t have the resources to stay on top of standards requirements or do the extra testing or certification to apply.

A number of companies did indicate that it would be very helpful if the U.S. government would engage with other nations where this is especially problematic and agree on mutual recognition of standards, testing and regulations. We currently work closely with the Commerce Department and other U.S. organizations involved in standards issues that affect U.S. companies.

Export Controls

The NAM has worked for several years to achieve the modernization of the U.S. export control system that was designed around a cold war model and unnecessarily burdens legitimate U.S. trade in seeking to address modern security challenges. A recent NAM-commissioned study by the Milken Institute indicated that modernizing our export controls system could create over 160,000 manufacturing jobs in high-value areas. This is a large and small company issue, especially for those in the high tech sector; but, as with other issues, the burden falls especially hard on small companies.

Large companies have entire departments dedicated to keeping abreast of changes and ensuring company compliance with U.S. export controls. Small companies simply do not have these resources. One NAM small company told us that, “It has taken over 200 man-hours to ensure compliance to export regulations for our small 50-person company.”

Another company outlined their process for a State Department Commodity Jurisdiction determination to be made: extensive review (back to the 1970’s), retainer of an expensive export compliance attorney, a one-year process that required additional research, arguments and proof. All of this was just to determine that the Commerce Department has jurisdiction over their product, which Commerce then declared an “ECCN of EAR99, meaning it was pretty innocuous and non-threatening.” The company noted that this kind of protracted process only lessens their competitiveness without making the nation safer.

Trade Facilitation and Finance

The cost of shipping, especially for small packages, was cited by a number of companies. In addition, a shortage of containers for shipments to China and Japan caused serious problems for a company exporting finished lumber from the United States. The process of international shipping is also more time-consuming for small companies that do not have personnel or departments devoted to it.

In the area of trade finance, we received some interesting input. Although a number of companies indicated that they had used ExIm Bank products, some of them said that “Export credit insurance is a tool that favors higher value transactions. It would be valuable to us if access to this tool were expanded.”

Other companies have indicated that many of their deals cannot be financed by ExIm because they are too small. ExIm may approve the deal, but it is difficult to find a lender that is willing to go through the ExIm process and paperwork for smaller deals. In response to the difficulty in finding credit insurance or finance for small deals, companies indicate that they require advance payment and letters of credit when possible.

Conclusion

In general, SMEs face many of the same export challenges as large companies, but the scale of the problem is greater due to resource constraints. Where there is a will to export, large companies have the resources to devote to finding and developing new customers and markets for their goods. The employees of small companies generally only have limited time and money to pursue export opportunities.

This makes government services offered to SMEs critical to their success in exporting. It is the general feeling among U.S. SME exporters that other governments, especially those in the EU and Japan, provide much greater exporting support to their SMEs. We encourage you to study more closely foreign practices in export promotion as possible models for expanded U.S. initiatives.

We applaud the Administration and the ITC for investigating these issues that are so important as we pursue policies that seek to help U.S. small companies sell more into global markets, and in the process, expand their workforces and become more profitable and resilient. We, at the NAM, stand ready to assist in any way possible to reach out to small companies with services and information on expanding exports.

Sincerely,

Patricia Mears
Director, International Commercial Affairs