

Testimony

of Charles Wetherington
President
BTE Technologies, Inc.

on behalf of the National Association of Manufacturers

before the House Committee on Small Business

on “Small Business Exports in the Current Economic Climate”

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Good morning Madam Chairman and members of the Committee. I appreciate the opportunity to participate in this very important panel on “Small Business Exports in the Current Economic Climate”. I am Charles Wetherington, President and Owner of BTE Technologies, a small company headquartered in Hanover, Maryland, with offices in Denver, Colorado.

We have a total of 78 employees and produce a range of medical devices focused on physical therapy, industrial rehabilitation and sports medicine. We have the good fortune to be in a product space where U.S. flagged goods are held in very high esteem in the world marketplace. Exports have been a key part of our company’s strategy and success. In this we are not alone. It is critical to small business in the United States that we achieve faster growth in our exports.

BTE Technologies is an active member of the National Association of Manufacturers (NAM) and I am pleased to have the opportunity to testify on behalf of the NAM this morning. The NAM is the nation’s largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. I particularly applaud this Committee’s active interest in small business exports because exporting is vital to American manufacturing and to the NAM, which was founded in 1895 U.S. manufacturers to find markets abroad for their products.

Importance of Exports

Last year, U.S. manufactured goods exports were \$982 billion, 60 percent of all U.S. exports of goods and services. Services accounted for \$479 billion – 29 percent of the total; and agricultural exports were \$92 billion – 6 percent.

Exports are vitally important to the U.S. economy – in fact last year they accounted for 40 percent of the growth of U.S. real GDP, offsetting the housing decline. Exports are very important to the manufacturing sector, and by NAM estimates, account for over one-fifth of manufacturing output.

Yet the United States runs a huge trade deficit – a deficiency of exports compared to imports. We have been falling short, and will continue to fall short unless our exports close the gap with our imports. On the import side, we have to ensure that imports are fairly traded, and have to deal firmly with subsidies and other unfair trade practices.

I believe, though, that our biggest trade problem is how to get our exports to grow much faster and allow us to pay for our imports through exports rather than by borrowing more from other countries. We cannot go on running such huge trade deficits. Our deficit did fall last year, as export growth exceeded imports, particularly for manufactured goods, in which the deficit fell nearly \$30 billion. For the first four months of this year, the manufactured goods deficit declined another \$17 billion. This is still only a modest improvement, though, and much more is needed.

Given the likelihood of continued large imports of oil and of foreign manufactured goods, we need a huge ramp-up of our exports, most of which will have to be manufactured goods. This should be a government priority as we look at the projections for continued growth in a number of major international markets. We need a national export expansion strategy designed to achieve a large and sustained increase in our exports.

There are a number of key factors in the success of U.S. exports over which the government has oversight or control. They are: currencies that reflect market values; multilateral and bilateral free trade agreements that open markets for U.S. goods by bringing down foreign tariffs; the removal of standards and regulatory barriers that limit the sale of U.S. goods in foreign markets; and U.S. government services that assist companies to export their goods.

Importance of Small Business

Before examining these factors, it is important at today's hearing to consider, in light of the export data, how important is small business to that picture? Of U.S. companies that export, over 97% of them are small and mid-sized businesses, yet those companies only represent 30% of the dollar value of all U.S. exports. This can be accounted for by the fact that about two-thirds of all smaller exporters sell to just one country and two-thirds have fewer than five export sales per year.

The Small Business Exporters Association, an NAM member association, calculates that last year, small companies exported over \$450 billion worth of U.S. goods and services. When you consider that one of the most difficult parts of exporting for a small company is that first export, those companies that have already learned how should be prime targets for export expansion efforts. If most of the small companies that are making a few sales in one foreign country were to make a few more in that country and /or an equivalent level of sales in a second country, we could probably bring that figure up to \$625 billion a year, even without adding any new exporters. That would cut the current trade deficit by about 25%.

Altogether, there are over 220,000 American small businesses that export. This is certainly a remarkable figure – it’s tripled in the last 20 years. Yet, there are 26.8 million small businesses in this country overall, which means that over 99% of U.S. small businesses don’t export. Recognizing that many small businesses will never export, if the number of small business exporters is increased by half, increasing the percentage from 1% of small businesses to 1.5% and if that new group could become 75% as successful as the current small exporters, then we will have reduced our trade deficit by an additional \$170 billion.

So two steps – increasing incremental sales by current small business exporters and increasing the number of small business exporters by half – could eliminate almost half of the U.S. trade deficit of \$700 billion.

This kind of a step up in small business exporting would also have a major impact at home. Data show that export-related jobs pay 13-18% more, on average, than non-trade-related ones. And every \$1 billion in exports creates more than 9,000 jobs. So another \$500 billion in exports equals 4.5 million of these good jobs.

The NAM has made outreach to its small companies with export assistance one of its member priorities. Currently, there is a full time U.S. and Foreign Commercial Service officer posted at the NAM for two years to direct this effort.

BTE Technologies Experience

I would like to take a few minutes to describe our experiences at BTE Technologies. In 2001, after purchasing the company, we diversified in two very important ways. Because the production of capital goods is cyclical, we expanded by offering professional services, in our case, assistance with workers’ comp cost controls. This portion of our business has grown dramatically in the United States, to 25 - 30 percent of our revenues, and we are looking to export these services with a pilot project in Italy.

The other change we made was to place greater focus on exports. I am happy to say that, since 2002, our exports have grown ten times. At that time, exports represented three percent of our revenues and now they represent 35 percent. We currently export to 28 countries in the world.

We have used a range of services provided by the Commerce Department's Commercial Service and have found them to be instrumental in our success. We worked with the Baltimore Export Assistance Center, to help us find distributors overseas, conduct background checks on potential customers and agents, and do country analysis identifying markets for our products.

For small companies, these services are essential to success in exporting. Most of us don't have the resources to have large export divisions or offices overseas to ferret out new business.

One of our breakthroughs has been that we have to be there, feet on the ground, once or twice a year in order to maintain the relationships necessary to making repeat sales. That is time-consuming and expensive, but it is essential in our business, and we have found the benefits outweigh the costs in the long term.

Importance of Currency

Absolutely essential to the competitiveness of U.S. goods are currencies that are aligned with market forces. The NAM Board of Directors has long held the policy position that currencies should be market determined, free of government intervention. When the dollar is excessively strong against other global currencies, U.S. goods become expensive in global markets and exports decline. When the dollar has adjusted to a more realistic value, exports grow. This sounds like common sense, but it is a fact too often overlooked in this discussion.

We have just seen this phenomenon occur over the past decade. During the 1997-2002 period, the era of the so-called "strong dollar", the dollar ran up to 25% over its equilibrium value. During this period, the trade deficit spiraled upward and U.S. exports dropped off a cliff.

The dollar peaked in 2002 and began the readjustment that we are still seeing today. There is, of course, a lag in the effect of currency on exports, but the export growth we are now seeing is a direct result of this readjustment of the dollar. The NAM hears every day from companies who say the value of the dollar has allowed them to be competitive internationally again and export more. Many companies, particularly small and mid-sized, say that the primary reason they are doing well at the present time is their export performance.

Multilateral and Bilateral Free Trade Agreements

I recognize that there have been concerns raised about our free trade agreements, but I must say from the perspective of a small company trying to export, they have been very important for us. The United States is already open to the world; it has been for decades. It's much of the rest of the world that has higher tariff and non-tariff barriers to U.S. exports. Our free trade agreements have opened foreign markets to U.S.-made goods.

The NAM has looked at the data and it confirms how important these agreements are to U.S. manufacturers. Our manufactured goods trade deficit with our free trade partners is a small fraction of the total and in fact is smaller today than six years ago. The manufactured goods deficit with all our free trade partners together – NAFTA, CAFTA, and all the others – was \$34 billion in 2001 and \$27 billion in 2007. That is a 20 percent improvement, while our manufactured goods deficit with the rest of the world - with which we have no trade agreements - grew by \$200 billion – up 70 percent. The contrast between our trade with our trade agreement partners and the rest of the world is so striking that manufacturers hope we can continue opening markets with new agreements.

Standards and Regulatory Issues

One of the big hurdles we at BTE face in exporting are regulatory and standards barriers. A good example is the Medical Device Directive in the European Union (EU). One would think the EU should be about the easiest place after Canada and Mexico for a U.S. company to export, and in many ways it is.

But this directive has made it very expensive for us to get certified. And we are seeing signs that others are starting to follow the EU's lead. In Russia, for example, there has been a changeover in the Health Ministry and we have reason to believe there may be a change coming in the regulations that will require our recertification. Last year, we spent \$25,000 to be certified there for a \$200,000 sale. That may not sound like a lot, but if we have to do this on an annual basis, there will be no profit in the sales for us.

How could the government help with this? Several ways: first, work hard to develop some level of standardization. This might include negotiating global standards in a range of products requiring these kinds of certifications, or reaching agreements for reciprocity between certifying agencies. This is especially helpful for small companies, that we are able to make our products to one set of specifications that can be sold globally. Multiple standards greatly increase the costs of production and this could help many of us, large and small, who export.

Second, it would be very helpful if the Commerce Department were able to help alleviate the problem faced by small companies when required to do duplicate testing and certification overseas because the usual U.S. testing process is not accepted by the importing country.

U.S. Government Services to Exporters

Finally, let me point out that the U.S. export promotion strategy has for a number of years been one aimed at increasingly shifting the cost of various marketing research and promotion programs to users of trade missions, market research, participation in trade fairs, and the like. The U.S. approach has taken a step toward making promotion services more attractively priced for smaller companies, however, with the new fee schedule implemented May 1st of this year

Even this welcome step, though, leaves the U.S. program in contrast to the support that other governments provide. For example, one NAM member company relayed this story with regard to their competitors' government assistance:

“In our industry (packaging machinery) participation in international trade shows is key when entering new markets. Currently our members have to pay a significant amount of money to participate in these events. However we know that competitors from other countries, mainly European, have strong support from their governments based on trade promotion programs. This is leaving our members in a weak position to compete internationally. We consistently find country pavilions at international trade shows that are heavily subsidized by their governments. We have found this mainly from European countries including Spain, Italy, UK and Germany. We have learned that some of these countries pay up to 70% of space, decoration, freight and staff transportation for companies to attend a trade show.”

This member also provided a copy of a new UK Government program that provides funding to British companies that seek to enter new markets, underwriting much of the cost of participating in trade fairs or undertaking other export marketing steps to expand their overseas sales. In BTE's experience, we have spent over \$100,000 in the last 4 years just to attend MEDICA, the annual tradeshow that covers our field.

My attention was also drawn to an Australian news report earlier this year stating that Australian government grants for export market development will be boosted by \$50 million to a total of more than \$200 million. Australian Trade Minister Crean, in announcing the increase, said that Australia has to engage much better, “with the fastest growing area of opportunity – world trade.” I note that Australia's exports of manufactured goods last year were about \$60 billion – 1/16th the amount of U.S. manufactured goods exports, so Australia's \$200 million program is the equivalent of announcing a \$3.2 billion U.S. program.

So while U.S. export promotion programs provide little if any financial assistance to exporters, our competitors have a totally different philosophy about promoting exports. In doing some research for my appearance before the Committee, I have to confess I was startled to learn that it was not only our competitors who were able to provide financial incentives and support to enter trade shows and seek new markets, but also the U.S. Department of Agriculture.

Under the Foreign Market Development Cooperator Program (FMD) and the Market Access Program (MAP) agricultural trade associations engaged in market development and export promotion activities for both generic and branded products are eligible for a range of supports. As part of the MAP, for example, the Export Incentive Program (EIP) provides reimbursement to qualifying small companies for airfare to foreign trade shows, trade show participation costs such as rental of space and equipment, promotional and advertising costs, and packaging costs if necessary to meet importing country requirements. This is quite similar to what is characteristic of the support available to many foreign firms. However, under current programs and funding, none of this is available to U.S. manufacturers seeking to expand their exports.

In addition, we need promotion assistance and resources both in Europe and in China, as well as in other rapidly-growing markets such as the Middle East, India, Brazil, etc. But those resources simply are not available. The NAM believes that with the present value of the euro, we cannot afford to overlook the opportunity to get more U.S. manufacturers to export to more European countries. The NAM is teaming up with the Commercial Service to utilize our outreach resources along with some of Commerce's programs to help find European customers and distributors in what we call "Europe NOW" in the hopes of generating more U.S. export marketing to Europe.

The NAM also suggested to the Commerce Department a far-reaching set of ideas for ramping up export promotion in China, but these ideas are outside the scope of present resource availability. They include establishing American Trade Centers, utilizing the Export Trading Company Act to form China Trading Companies in which groups of U.S. companies would establish marketing and distribution centers, use of creative financing, and the like.

If a sudden increase in priorities and resources for export promotion were to become available, one program we believe could be ramped up very quickly is the Market Development Cooperator Program (MDCP). This program offers grants to vertical trade associations or other groups for programs or promotional offices designed to enhance exports. The grants fund up to one-third of the cost and last for three years. The MDCP program has been a real success, even though it is starved for funds. I understand that Commerce's analysis has shown that for every federal dollar invested, \$100 in exports has been generated. Since 1997, this program has generated \$2.65 billion in U.S. exports, with an outlay of \$20 million or less over that time period. I estimate that amount of exports generated additional tax revenue to the U.S. government amounting to almost \$100 million – not a bad return on the taxpayer's investment – especially since this is seed money for what become self-sustaining promotion centers.

Consider, for example, the experience of the Association for Manufacturing Technology (AMT), an NAM member association representing the machine tool industry. More than 80% of its members are small or medium-sized companies. With the help of an MDCP grant, AMT opened a center in Shanghai, China, which is now one of the world's largest markets for machine tools. The Center provides exhibition, meeting and storage space, as well as services such as translation, invoicing and sales for companies that otherwise could not afford to have their own offices in China. Since 2004, the Center has generated \$41 million in sales of U.S.-made machine tools. The MDCP grant totaled \$225,100.

The current budget for the MDCP is \$2 million. When the MDCP was founded in the early 1990's, its budget was \$2 million. Fifteen years later its budget remains the same – in fact the program is so starved for funds that it cannot make any new grants in 2008, although there is hope that some new grants may be possible in 2009. With such a record of success, it is our view that this is a program that should be greatly expanded. By contrast, in 2007, the U.S. government spent \$240 million for two generally comparable programs that promote agriculture exports. A comparably funded program for manufactured goods, which are 10 times as large as agricultural exports, would have been \$2.4 billion – 1200 times larger than the actual budget of \$2 million. It would also be useful to see programs that focus on promoting U.S. products and industries that are highly competitive and have superior reputations globally.

I again want to make clear that my comments are not intended to be a criticism of promotion funds for U.S. agricultural goods. My remarks are meant to highlight the paucity of funding to promote manufactured goods exports and to illustrate what a comparably funded Commerce program would be, scaled to the size of exports.

As another example of a promotion program NAM members think could be expanded quickly if there were additional funds is the Foreign Buyers Program. This program promotes foreign buyer attendance at U.S. trade shows, and is an attractive way of promoting small and medium-sized firms' products because these firms don't have to travel overseas to exhibit their products. The prospective buyers come here, to U.S. shows at which the U.S. companies are already exhibiting. Only 20 shows per year qualify for the program, but given its success, I believe it should be considered a key part of any expanded export promotion program. In addition to expanding the number of eligible U.S. trade shows, it would also be helpful to provide special and expedited visa processing for foreign buyers.

Export Finance

Another key factor in export success is export finance and credit. Agencies such as the Export Import Bank, OPIC and the Small Business Administration offer valuable services and products to U.S. exporters. Each of them also has programs specifically geared to small companies and their special needs. For example the ExIm Bank, under current chairman Jim Lambright, has instituted a new department headed by a senior vice president solely devoted to outreach and service to small companies.

My company has taken advantage of these services at ExIm and it has made a significant difference in a number of our recent sales. I strongly encourage you to continue support for these important financing opportunities for small companies. However, it would be helpful if the rates charged by ExIm reflected our efforts in managing risk. Premiums paid to ExIm are fixed based on the dollar amount of protection and are not indexed to our loss experience, either favorably or unfavorably.

Customs “10+2” Rule

Although we are today discussing export issues, I want to highlight for the committee one current customs issue of great importance. Many manufacturers, including small manufacturers, are able to maintain their global competitiveness by importing some of their inputs. These are assembled here, often with domestic parts as well, and then exported to foreign customers.

Customs and Border Protection (CBP) has proposed a new filing obligation for importers before merchandise is even loaded into a container. It would mandate the submission of an Importer Security Filing ("ISF") 24 hours prior to container loading. Industry is very concerned that this new requirement would alter the way many companies do business. In addition, the NAM has determined that there will be substantial additional costs for U.S. manufacturers – as much as \$8.5 billion per day - that were not adequately assessed by CBP.

The NAM fully supports initiatives to ensure national security and has made a number of proposals to CBP that could achieve the desired goal while addressing the concerns of industry. These include: further analysis of the effect of this proposed rule on the movement of shipments and further guidance on implementation; conducting a prototype of the proposed rule with importers all of sizes from all sectors participating to assess the efficacy and costs followed by a phase-in period; and recognition of companies participating in the CTPAT program. I encourage the Committee to look into this issue as an important one affecting U.S. companies' global competitiveness.

Conclusion

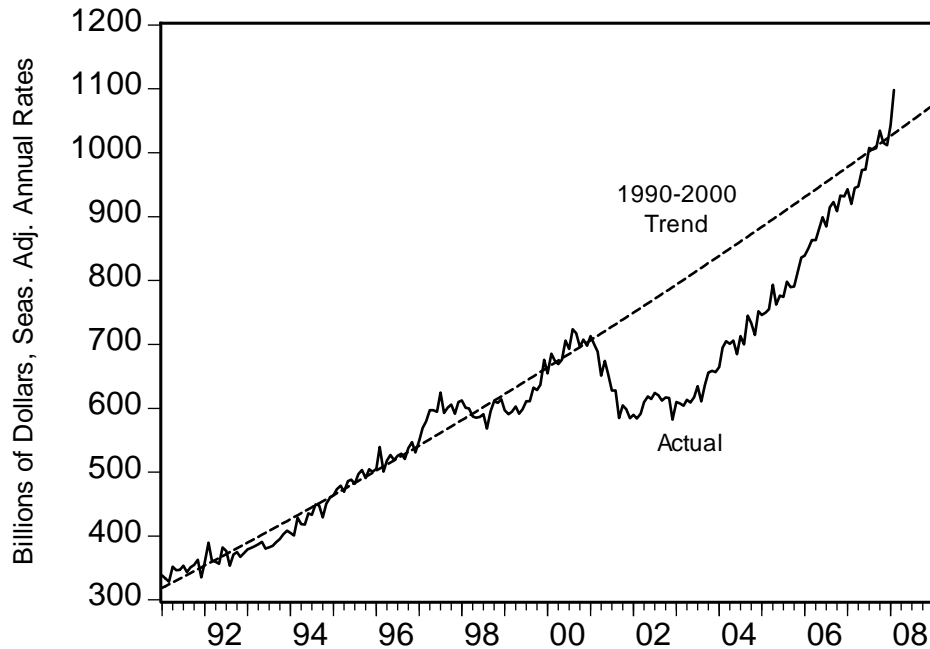
In conclusion, Madam Chairman, I would like to thank you and the members of the Subcommittee again for this opportunity to testify on such an important issue. We are in a globalized world. We don't get to vote yes or no on this. What we can do, however, is to put ourselves in a better position to avail ourselves of the global opportunities in a way that promotes the standard of living of all Americans. Certainly a determined promotion effort that would increase the participation of American small and mid-sized companies in world markets must be an important part of this endeavor.

Thank you, Madam Chairman.

EXHIBIT 1

U.S. EXPORTS OF MANUFACTURED GOODS

Trend and Actual



Source: U.S. Census Bureau, Seasonally Adjusted by NAM, employing Census X-11 seasonal adjustment program

NATIONAL ASSOCIATION OF MANUFACTURERS

The importance of paying attention to U.S. exports is obvious by looking at this exhibit. Exhibit 1 shows the 1990-2000 growth trend of U.S. exports of manufactured goods and depicts how badly we have fallen behind for the last six years or so because of the severe misalignment of global currencies. Only in the last few months have we returned to the growth path we should have been on.