



Statement of

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Washington, DC*

Regarding Small Business Administration International Trade Activities

Before the

**COMMITTEE ON SMALL BUSINESS
U. S. HOUSE OF REPRESENTATIVES**

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The Small Business Exporters Association of the United States™

America's Premier Association for Small and Mid-Sized Exporters®

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Madam Chairwoman Velázquez, Representative Chabot, members of the Committee, thank you for inviting me to appear here today. I am James Morrison, President of the Small Business Exporters Association of the United States. SBEA is the nation's oldest and largest organization dedicated exclusively to small and mid-size American exporters. We are also the international trade council of the National Small Business Association, which is celebrating its 70th anniversary this year, and which reaches more than 100,000 small businesses across the United States.

We want to thank the Committee for devoting its attention to SBA's Office of International Trade, and to the agency's export finance products, as part of the larger reauthorization process. SBEA strongly supports OIT and products.

It has been a long time since the two authorizing Committees reviewed the important work of OIT, which plays a unique and valuable role in aiding export financing in the United States. So SBEA is glad to be taking part in today's hearing. The Committee members have before them an excellent bill that will build on OIT's strengths and use it to help articulate the needs of smaller companies in international trade to other agencies of the government.

SBEA would like to begin today by offering a bit of background on small business and international trade. We offer seven main points.

1. Export promotion activities by the federal government can be most profitably focused on smaller companies.

The Fortune 1000 companies in the United States are, for all practical purposes, fully globalized. They have a good sense of where their export markets are and what's needed to sell in those markets. They know where to go to finance their foreign sales. They have the resources to handle common types of foreign trade barriers to U.S. exports.

While there is always room for these large corporations to add new products and services to their exports, and while our government should be ready to support them abroad when necessary, by and large these companies don't need government officials to show them why and how to export.

The situation among small and mid-sized companies in our country is dramatically different. On the one hand, the growth of exporting among smaller U.S. companies has been an astonishing success story. In 1987, about 65,000 smaller companies exported. Twenty years later, that number has more than tripled, to about 230,000.¹

¹ Source: Exporter Database, Office of Trade and Industry Information, U.S. Department of Commerce

Today, exports from those small companies are worth over \$375 billion a year, or more than \$1 billion a day.²

That's the good news.

The bad, or at least not so good, news is that despite the growth in small business exporting, still only about 9% of U.S. small businesses export.

Smaller American companies, accustomed to our prosperous domestic market, still have trouble grasping that over 96% of the world's consumers, controlling over 70% of the world's purchasing power, live outside the United States. These small companies are often light years removed from the Fortune 1000 in their understanding of the opportunities and pitfalls of foreign markets. *Yet, precisely because the largest companies are already so adept at exporting, small companies represent the real upside potential for U.S. exports.*

Take a look at how small companies in the U.S. fare domestically in a whole series of sectors. Small and medium-size enterprises (SME's) account for 69% of the U.S. heavy construction market. In water, waste and sewage systems, small companies are 48% of the U.S. market. In wholesale trade in durable goods, it's 42%. In computer systems, it's 51%. In geophysical surveying and mapping, 78%. Water well drilling, 93%. The list goes on and on. (See Exhibit 1.) The point is this: *all of these sectors involve products and services that are in high demand abroad.* The challenge is to link up that prodigious domestic capability with the prodigious foreign demand.

Accomplishing that will require some missionary work and some facilitation by government. The payoff for the American people will be more international trade jobs on the nation's Main Streets, stronger and more agile small companies, enhanced economic growth, and lower trade deficits.

2. SBA is critical to this effort.

The agency's reach into the U.S. small business community, through its ten regional offices, its national network of District Offices, as well as the Small Business Development Centers and the SCORE Program that it supervises, is unparalleled. Its small business focus and its tradition of assistance are unique within the federal government.

Since Congress established SBA's international trade mandate, under the Small Business Export Expansion Act of 1980,³ the agency has developed an impressive set of financing products and an efficient, decentralized delivery system that is helping fill a gap in export financing for small companies.

What SBEA has discovered over the years is that small business exporters divide into two major categories – those considering exporting or starting out at it, and those who have gained some experience at it.

² U.S. Small Business Administration, *SBA Loans to Small Business Exporters Surpass \$1 Billion*, News Release 07-08, February 28, 2007.

³ The principal House sponsor for this legislation was Rep. Ike Skelton (D-MO), today the Chairman of the House Armed Services Committee.

SBA is helpful with both types of companies. Prospective exporters, for example, want training in the nuts and bolts of exporting. SBA provides this -- through classes at its District Offices and at the thirty or so Small Business Development Centers which specialize in international trade, and through mentoring by SCORE volunteers who are experienced in international trade.

New-to-exporting companies are generally seeking foreign buyers. Here the SBA has a few helpful offerings, like its Trade Mission Online, but it wisely directs most companies to the excellent services offered by the Department of Commerce at its 103 U.S. Export Assistance Centers across the United States and its corps of Commercial Service officers in U.S. Embassies around the world.

Small companies that gain some exporting experience frequently encounter the issue of export financing. As long as an exporter can find foreign buyers who will pay cash in advance for their purchases, there's no need for financing. But sooner or later, most U.S. companies that gain some familiarity with exporting discover that they need access to capital in order to grow and to offer financing terms to their foreign buyers.

It is hard to overstate the importance SBA in this process.

Sales of products and services to foreign countries involve a significant degree of foreign risk, especially when the foreign buyers finance their purchases over time. Commercial banks historically have been reluctant to assume a major share of this risk. For one thing, the collateral securing the loans is often in another country, where recovery can be difficult.

Every exporting nation in the world grapples with this risk. Nearly all of them address it by providing guarantees to commercial lenders and brokers, or by providing credit directly to exporters.

This is particularly vital for transactions by smaller companies. Very few U.S. banks, perhaps no more than 400 out of the 6,000 or so that exist, provide export financing. Of those, perhaps no more than 100 will handle smaller international transactions. Banks that will do so, on a regular basis, for small business exporters that are *not* regular commercial customers probably number less than 25. **25!** This is an almost unbelievable situation in a nation of 300 million people that is the world's largest exporter, but there it is. **The only thing keeping even this relative handful of banks in the business of export financing for small international transactions is the guarantees offered by SBA.** Without those guarantees, (as well as the ones provided on larger transactions by the Export-Import Bank of the United States), small business access to export finance would be close to zero.

Congress envisioned SBA as a "bank of last resort" for exporters seeking to finance sales of less than a few million dollars. The truth is that for small exporters, SBA guarantees represent the *bank of only resort* for such sales.

3. SBA's work in this area shows great promise.

Consider this.

According to the Commerce Department, export-related jobs pay about 15% more and have about 40% higher benefits, on average, than other jobs.⁴ And small firms that export create, on average, 50% more jobs than other firms.⁵ Overall, each \$1 billion in exports creates, on average, over 4,000 of these new high-pay, high-benefit jobs.

In FY 2006, SBA underwrote \$2.1 billion in export sales.⁶

What did this cost the taxpayers? Well, the actual budget for SBA's Office of International Trade for FY 06 was \$4.3 million. Around \$3 million of that amount was allocated to OIT's principal trade finance officers in U.S. Export Assistance Centers. The cost of loan processing added perhaps another \$1 million to that figure (beyond OIT's budget).

So, for an expenditure of about \$4 million, the United States got \$2.1 billion in export sales. That works out to over \$500 in export sales for every \$1 the taxpayers invested in the program. If there is a better return on investment than this in export promotion --anywhere in the U.S. government -- SBEA has never seen it.

But, wait, as they say on late-night TV, that's not all. We also got over 8,000 new high-value jobs – at a group of small companies that is now poised to keep on generating new jobs at a fast clip. And all those new employees are now paying taxes – which, we can safely assume, will well exceed \$4.3 million.

And who accomplished this feat? Seventeen people did nearly all of it. That is not a misprint. SBA posted seventeen export finance specialists to U.S. Export Assistance Centers around the nation in FY 06 (the number has varied by two or three from year to year), and they worked up nearly all of these financing packages themselves. Many of the deals that they financed were for less than \$100,000. It's a long way from \$100,000 to \$2.1 billion, so the scale of their achievement is inspiring. It is also a vivid testament to the enormous demand for small business export financing in the United States.

At a time of record trade deficits, SBA is doing something that works effectively to reduce those deficits by stimulating exports.

Perhaps the Committee will appreciate the frustration that SBEA experienced as we pleaded with the Appropriations Committees, year after year, not to zero out this SBA USEAC program. Rather than zeroing out what is arguably the most successful export promotion effort, dollar for dollar, in the history of the United States government, Congress should at least *think* about expanding it.

⁴ National Association of Manufacturers, "Trade and the American Worker," *To the Point*, July 2006

⁵ *Importers, Exporters and Multinationals: A Portrait of Firms in the U.S. That Trade Goods*, Andrew B. Bernard, J. Bradford Jensen, Peter K. Schott, National Bureau of Economic Research, NBER Working Paper 11404, June 2005, pp. 4-5.

⁶ U.S. Small Business Administration, *Performance Budget*, Congressional Submission, Fiscal Year 2008, p. 54

4. Despite SBA's remarkable successes in assisting small exporters through its Office of International Trade, there is room for improvement.

SBA's work in the U.S. Export Assistance Centers is stretched far too thin. This program works. Every effort should be made to increase its resources and extend its benefits throughout the United States.

To begin with, the agency has long-vacant posts in several USEAC's. Consider New York City, the hometown of the Committee's Chair. It is the hub of nearly \$100 billion in annual exports (\$57.3 billion from New York, \$27 billion from New Jersey, and \$12.2 billion from Connecticut in 2006). New York is also one of the major exporting states where the dollar value of small business exports *exceeds* the dollar value of large business exports.⁷

Yet the post of SBA export finance specialist at the New York USEAC has been vacant since 2002. It's being handled by a "marketing and outreach" person out of an SBA District Office.

Based on concentration of small business export activity in New York and the average financing output of these USEAC specialists elsewhere in the country, it is reasonable to assume that having one of them in the New York USEAC would be worth \$125 million a year in small business export sales to the metropolitan area. In the six years since 2002 (inclusive), that works out to about three-quarters of a billion dollars in foregone exports. Perhaps some of these exporters found export financing elsewhere. And perhaps the "marketing and outreach" person was able to put some financing packages together. These are unlikely assumptions, but even if we grant them -- to the generous tune of 25% or so -- the loss to New York is still staggering.

Or the vacancy in the New Orleans USEAC -- since 2003. As this great port city struggles to rebuild after Hurricane Katrina, it seems unconscionable to deprive it of the export financing expertise that could get its small exporters back on their feet, not to mention the export sales and jobs that would boost the entire New Orleans economy. Yet New Orleans continues to be handled out of Dallas, where the export finance specialist already has to contend with the nation's largest exporting state -- Texas, with \$150 billion in export sales in 2006.

California, with 50,000 small business exporters, finally got its second export finance specialist, after a wait of six years. Presumably each of them can now service 25,000 existing small exporters plus whatever number of new ones emerge and seek financing.

The great port and exporting nexus of Baltimore is being serviced part-time, by a Washington-based export finance specialist.

And so on.

In 2002, there were 22 of these specialists. Despite rising exports and enormous demand for small business export financing, there are only 17 today. Madam Chair, this program should not be shrinking; it should be growing!

⁷ Florida is the other such state. Small business exports also represent about 48% of the dollar value of California's exports.

And then there is the question of travel. These specialists have responsibility for servicing numerous clusters of bankers and small business exporters over territories spanning tens of thousands of square miles. Most of them handle multiple states. Yet for years, SBA has skimmed on their travel budgets. Entire years went by during which these specialists had *no* travel funds. So they tried to handle everything by phone or from their offices. Many of the most dedicated saw the absurdity of this and paid for travel out of their own pockets.

So, in addition to increasing the number of these specialists, SBEA strongly urges the Committee to authorize reasonable travel allowances for them to perform the job that is expected of them.

5. The bill before the committee is a good foundation for expanding SBA's work on international trade.

Section 101 of the bill usefully lays out a constructive role for SBA to play in supporting U.S. trade negotiations. While many federal agencies, including the Office of the United States Trade Representative, do take note of the needs of small companies in trade policy, and various advisory groups that meet occasionally do offer recommendations on it, there is no single governmental entity that focuses exclusively on it -- professionally, and on a full-time basis. Until such time as that responsibility is taken up elsewhere in government, SBA's Office of International Trade should lend its expertise to the process.

Sections 102 and 103 of the bill call on OIT to work with the Trade Promotion Coordinating Committee at the Department of Commerce, and other government agencies, in helping craft an annual trade strategy for small business and in tracking small business exports and trade resource utilization. Assisting small business as part of the National Export Strategy is one of the long-established goals of TPCC, and has been supported by other agencies. But making OIT a focal point will probably bring added depth and consistency to the overall design of U.S. trade strategy as it affects small business. The data collection that the bill stipulates will further support informed decision-making.

Title II of the bill strengthens trade remedy and dispute assistance at SBA. Small businesses typically know little or nothing about these processes, and could benefit from the enhanced accessibility of information that the bill would provide.

The same is true of intellectual property protection in international trade, one of the key issues affecting U.S. companies of all sizes that export, and the subject of Section 102 of the bill. In its report on this legislation, the Committee may wish to reference the work of the "Stop Fakes" initiative by several agencies and organizations, which may be a good starting point for the changes that the bill envisions.

In Title III of the bill, the Committee strengthens SBA's work on Trade Adjustment Assistance. SBEA is very supportive of the thrust of this section. We strongly believe that restoring the national consensus for a vibrant international trading system depends to a significant degree on reassuring the public that a "safety net" does in fact exist for those who suffer a genuine injury. As the Committee is aware, SBA has existing authority in this area. Its International Trade Loans can be made for

exporting *or for import injury*. But the tiny trickle of ITL's for import injury suggests that such loans need revising and/or greater publicity. Commercial banks may be SBA's best partner in accomplishing both objectives. This Title of the bill also usefully assigns to the head of OIT the role of coordinating the many parts of SBA's operation that can help ameliorate import injuries.

The work of OIT in the USEAC's is addressed in Title IV. The bill would add six new export finance specialists, starting with USEAC's where there have been vacancies for four years or more. The bill also directs OIT to develop a formula for assigning new export finance specialists, which the Committee sensibly bases on unmet export demand. While the details of this formula may need tweaking, it is in general a good idea. As must by now be obvious, SBEA strongly supports an increase in the personnel for this extremely valuable program, and we commend the Committee for moving forward with it.

Finally, Section 402 of the bill adjusts the loan sizes for SBA's export financing.

SBEA has a few technical recommendations here.

The SBA Export Express Program – a great program that meets a lot of smaller and more immediate business needs, and which is the export version of SBA Express -- should be made permanent, as SBA Express is. For one thing, commercial banks utilizing Export Express need to know that it will continue before they train their people on it. Since Export Express is intended as an “express” program, loans under it should be further streamlined, and as much paperwork as possible eliminated. Simple, rather than complex, business plans should be required. Export Express also should be publicized more extensively. The loan limit should match that of SBA Express, \$350,000.

Export Working Capital loans, which permit a business with export orders to ramp up to meet the export demand, should not only rise to \$3 million in gross loan amounts, as the Committee stipulates in its bill, but should also take into account SBA's standard 90% guarantee on export financing by increasing the maximum guarantee amount to \$2.7 million.

Because small export financing packages are so incredibly difficult to obtain without SBA, we recommend that the traditional \$500,000 increment in gross loan amounts permitted to ITL borrowers (over standard SBA 7a loans) be re-established and maintained. In recognition of that acute export financing need, SBA had established the higher ITL loan caps several years ago. Now that the Committee anticipates an increase in 7a loan sizes, we recommend that the reauthorization maintain this \$500,000 increment by raising the ITL gross loan maximum to \$3.67 million and the guarantee to \$2.75 million. Again, it is important to keep the 90% guarantee in mind so as to synchronize the gross loan maximums with the guarantee maximums.

Above all, the Committee should encourage OIT and the SBA leadership to frequently query the export finance specialists for improvements in the “fine print” of Export Express, EWC and ITL loans that would make these products more customer-friendly without exposing SBA to unnecessary risk.

6. SBA's management structure for OIT urgently needs to be addressed.

We understand that the Committee's intention is to deal with this issue in a coming SBA management bill. It would be hard to over-emphasize how important this is to the future success of everything else the Committee wants OIT to do.

SBA is by tradition and internal culture primarily a domestic agency. Its normal operating procedure is to focus entirely on its domestic activities and put the international ones on a far back burner. The reauthorization needs to strongly communicate to SBA that Congress considers strengthening small business' position in international trade to be a major SBA priority-- or the change won't happen.

The most effective way to do this is to permanently place the agency's key international trade resource, its export finance specialists in the USEAC's, under OIT's control, and to have the head of OIT report directly to the Administrator.

An internal administrative change at SBA recently put the USEAC personnel under OIT, but internal administrative changes can always be rescinded. The reauthorization should make the change permanent.

The only way that an SBA Administrator can receive direct and unfiltered information about the agency's international trade activities is for the head of OIT to report directly to him or her. This is perhaps especially true for Administrators like the forward-looking Mr. Steven Preston, who often refers in his speeches to the importance of helping small companies address the international marketplace. The only way that Congress can signal to SBA's staff that international trade is an important part of the agency's mission is to elevate **both** the authority and responsibilities of OIT.

This bill addresses the responsibilities, but it does not address the authority.

Obviously, OIT should *coordinate* with SBA's Office of Capital Access. But given the entirely reasonable expanded role for OIT that the Committee envisions – conducting high-level dialog with other federal agencies on trade policy and trade negotiations, intervening in IP protection initiatives, coordinating SBA's trade remedy and trade adjustment assistance with those agencies, working with ministers of foreign governments, and so on – OIT plainly cannot succeed while remaining deeply buried under layers of the SBA hierarchy. Indeed, SBA seems to be going in the opposite direction from the Committee with its recent decision to **lower** the head of OIT from an Associate Administrator to a "Director."

Senior official from other agencies and foreign government ministers are highly unlikely to work closely with low-level or mid-level SBA officials. Given the current OIT management framework, the Committee's goals will simply break down.

To have a real chance of succeeding, these heightened responsibilities must be assigned to an individual with real authority – at the level of an Associate Administrator (or SBA's new Associate Deputy Administrator designation) – who reports directly to the Administrator and controls OIT's personnel and programs.

Ideally, this individual should be a political appointee with appropriate background and experience, who will be seen across the government as a senior member of the management team of the Administration in which he or she serves.

SBEA believes that the current status of OIT's head as a "Director," with limited authority over the Office's personnel and products, is inadequate for the Office's **current** responsibilities, let alone more challenging ones.

So we strongly urge the Committee to forthrightly address the matter of OIT's authority in the proposed management bill.

7. It makes sense to look ahead on small business export finance and set long-term benchmarks.

If the Committee is looking for a long-term benchmark or goal for SBA, here is one that SBEA suggests considering: Canada's export financing agency. The Canadian equivalent to both SBA and Ex-Im Bank for export financing is called Export Development Canada.

Here's a comparison: In the U.S., in FY 06, SBA financed \$2.1 billion in export sales by 2800 companies. Ex-Im financed about \$2.6 billion in such sales by about 2000 SME's. Together that's \$4.7 billion and 4800 companies.

Now look at Canada. Although the Canadian economy is *one-seventh* the size of the U.S. economy, EDC supplied *6200* Canadian small business exporters with *C\$15 billion* in financing. EDC provided export financing to about 17% of Canada's exporters, as against the roughly 2% of U.S. exporters that were supported by SBA and Ex-Im.⁸ EDC's own goal is to contact *every single* Canadian exporter *every year*. EDC offers over a dozen products, frequently improving old ones, adding news ones, and discarding non-performing ones. EDC personnel regularly "role-play" as small exporters to imagine how such companies would try to navigate the system.

So as impressive as SBA's statistics are – and they do represent a truly amazing feat by a handful of people -- the U.S. still has a very long way to go in becoming world-class competitive in small business export financing.

⁸ Source: Export Development Canada, *Annual Report 2005*, p.2. www.edc.ca/english/docs/2005_annualreport_e.pdf

Exhibit 1:

Examples of economic sectors where strong SME domestic performance could yield more exports -- with the help of export financing

U.S. Domestic Production, 2002, in Billions of Dollars (except as noted)

NAICS Code	Description	Total Receipts	SME Receipts	SME %
2213	Waste, Sewage & Water Systems	\$8.3 billion	\$4.0 billion	48%
233	Building and developing	\$535	\$411.4	77%
234	Heavy construction	\$174.4	\$119.7	69%
2358	Water well drilling	\$3.2	\$3.0	93%
421	Wholesale trade in durable goods	\$2,332.2 (= \$2.33 trillion)	\$979.3	42%
441	Motor vehicle & parts dealers	\$813.2	\$683.5	84%
44122*	<i>Motorcycle, boat and other motor vehicle dealers</i>	\$32.9	\$31.0	94%
4431	Electronic and appliance stores	\$92.3	\$37.6	41%
444	Bldg equipment, garden equipmt & supply dealers	\$288.4	\$146.8	51%
45393	Manufactured home dealers	\$9.6	\$7.2	75%
54136	Geophysical surveying and mapping svcs	\$1.0	\$ 0.785	78%
54151	Computer systems design and related svcs	\$181.8	\$93.0	51%
5416	Mgmt, scientific & technical consulting svcs	\$130.8	\$74.3	57%
5418	Advertising and related svcs	\$60.4	\$36.0	60%
5419	Market research & public opinion polling	\$11.4	\$5.5	48%
56	Administrative & support, waste management & remediation svcs	\$457.4	\$210.3	46%
Total		\$5.1 trillion	\$2.8 trillion	55%
Total, less 421		\$2.8 trillion	\$1.8 trillion	64%

Adding just 10% of these SME sales to the export market would increase U.S. SME exports by up to \$280 billion annually.

(Sources: 2002 Economic Census and 2002 County Business Patterns, U.S. Census Bureau. SME's are small and mid-sized enterprises with fewer than 500 employees.)

* Subset of preceding (441) category, excluded from totals

Exhibit 2: Exports by Company Size and Type (Value in billions of dollars. Details may not sum to total due to rounding.)								
Company Type	Known Identified Export Value By Company Size				Number of Identified Exporters By Company Size			
	Total ¹	Small ²	Medium ²	Large ²	Total ¹	Small ²	Medium ²	Large ²
2004								
All Types	709.5 100.0%	134.1 18.9%	68.9 9.7%	506.5 71.4%	231,736 100.0%	208,615 90.0%	16,524 7.1%	6,597 2.8%
Manufacturers	480.5 67.7%	34.0 7.1%	38.4 8.0%	408.2 84.9%	66,891 28.9%	55,039 82.3%	8,986 13.4%	2,866 4.3%
Wholesalers	133.2 18.8%	60.1 45.1%	18.8 14.1%	54.3 40.8%	77,159 33.3%	73,604 95.4%	2,918 3.8%	637 0.8%
Other	89.7 12.6%	36.7 40.9%	11.4 12.7%	41.6 46.3%	80,089 34.6%	72,522 90.6%	4,528 5.7%	3,039 3.8%
2003								
All Types	634.7 100.0%	116.9 18.4%	56.6 8.9%	461.2 72.7%	227,300 100.0%	203,761 89.6%	16,674 7.3%	6,865 3.0%
Manufacturers	430.1 67.8%	30.2 7.0%	32.7 7.6%	367.2 85.4%	65,045 28.6%	52,846 81.2%	9,240 14.2%	2,959 4.5%
Wholesalers	119.2 18.8%	48.8 41.0%	14.5 12.2%	55.8 46.8%	73,777 32.5%	70,249 95.2%	2,888 3.9%	640 0.9%
Other	76.9 12.1%	32.5 42.2%	9.0 11.8%	35.4 46.0%	80,337 35.3%	72,685 90.5%	4,449 5.5%	3,203 4.0%

¹ Percentages based upon total known value (or number) of all types of exporters. Details will not add to total since "unclassified" company type is not shown.

² Percentages based upon total known value (or number) for the row (company type).

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SBEA is the nation's oldest and largest nonprofit organization exclusively representing small and mid-size companies in international trade. SBEA is proud to serve as the international trade council of the National Small Business Association, the nation's oldest nonprofit advocacy organization for small business.