

Testimony of Michael Stanek
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On behalf of the National Small Business Association
And Small Business Exporters Association



House Small Business Committee Hearing:

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Good morning. I would like to thank Chairman Chabot, Ranking Member Velazquez and the members of the Committee on Small Business for inviting me to testify today on issues related to challenges facing small-business exporters and the impact U.S. trade policy has on small businesses.

My name is Michael Stanek and I am the Vice President and Chief Financial Officer of Hunt Imaging LLC, a manufacturer of dry and liquid electrostatic toners and developers used primarily in high speed computer printers. Hunt Imaging is headquartered in Berea, Ohio just outside of Cleveland in a 100,000 square foot manufacturing facility we have occupied since 1974. We also have a 12,000 square foot facility outside of Antwerp, Belgium but are currently in the process of shutting down that operation as sales throughout Europe have declined to a level that make it financially unfeasible to maintain it as an ongoing entity.

Although more than 99 percent of all businesses in the U.S. and European Union (EU) are classified as small and medium-sized enterprises (SMEs), accounting for the vast majority of employment, and adding more than 14.3 million new jobs to the U.S. economy—we are still struggling to keep our European operations open due to both economies being mired in sluggish and uninspiring recoveries.

I am proud to be here representing not only my company but also the National Small Business Association (NSBA) – the nation’s first small-business advocacy organization for whom I serve on the Board of Trustees, and its international arm, the Small Business Exporters Association (SBEA). I also serve as the First Vice Chair of the Board of Directors at an NSBA affiliate, the Council of Smaller Enterprises (COSE) in Cleveland, Ohio, the nation’s largest regional small business association.

Hunt Imaging was founded in 1996 as a spinoff from a Fortune 200 company with more than 90 years of imaging chemicals experience. With both dry and liquid capabilities, Hunt is able to service a broad array of needs in the imaging industry. Our current focus is on the high speed computer printer market with a particular niche in magnetic image character recognition (MICR) toners. We supply some of the largest printer manufacturers on an Original Equipment Manufacturer (OEM) basis and compete in the aftermarket as well with a Hunt labeled product. We currently employ thirty-five hard-working individuals between our two facilities and will maintain a workforce of thirty-one after our downsizing is complete.

Challenges to Exporting

The fact that Hunt Imaging is a Fortune 200 spinoff is very germane to the foreign trade topic as the background and experience many of our employees gained from being part of a large company gave us an advantage over most other companies our size when it came to exporting. Not only did we inherit an ongoing operation in Europe that made us very unique for a company our size, but our original employees brought with them the knowledge of how to deal with freight forwarders, customs brokers, export/import documentation, and other items that are specific to the export arena.

Without this innate knowledge, we would have been facing the same legal, administrative and regulatory barriers that so many of my colleagues face when they decide to enter into the global marketplace. The fact that nearly half of the exporters who responded to a [2013 NSBA and SBEA Exporting Survey](#) citing they spend a few months or more preparing to export is a clear indicator of the complexity faced by new exporters and the need for improved, streamlined assistance. The average small-business exporter reported spending approximately 8.4 percent of their annual operating revenue on preparing to export. To

put that in context, the average S-Corporation reports spending 11.1 percent of their annual operating revenue on salaries and wages, according to the most recent information available from the Internal Revenue Service.

Clearly, for Hunt, having the foreign operation and an existing book of foreign customers when we spun off had us in the export business—with a clear advantage—from the very beginning of life as a stand-alone entity. We did not fully comprehend at the time how unique we were in comparison to the vast majority of companies our size which are at a loss when it comes to having that background, yet join us in the challenge of having limited resources upon which to draw when it comes to learning new practices and in keeping up with ever-changing rules and regulations. Developing foreign markets is a significant challenge, especially for a small firm with limited human and financial resources. There are cultural factors to learn, language barriers, legal snares and obstacles, and the complex array of logistical and governmental issues surrounding cross-border trade.

Our history in exporting has been varied, with more recent sales being focused in the European footprint and Canada. We have also in the past year sold into Brazil but have done so via a customer in Miami, Florida who has handled the actual exportation. We have handled our recent Brazilian shipments in this fashion as the Miami company has a pre-existing relationship with the Brazilian customer and it also shields us from economic unrest in the Brazilian economy.

Finding effective distribution partners has been essential for us in identifying new customers, in new countries and understanding the different regulatory requirements. Without them, we would have had to spend a considerable amount of time finding labeling, shipping, certification requirements and all of the other relevant rules that apply to doing business in Brazil. The time that we devote to an export transaction is time that we won't be devoting to some other, equally important business operation. One often has to wonder if it is even worth trying to expand into new markets. Other destinations to which we have exported directly, although not recently, have included the Philippines, Egypt, and Pakistan.

Service to our customers in Europe has been handled through our Belgian facility, a luxury which we will lose shortly due to the aforementioned economic decline. We have historically produced all of our toner in our U.S. facility in Berea and would then export in bulk to our branch in Belgium where the toner would be packaged for sale to European customers. We are now in the process of changing the relationship with our largest European customer out of Germany and will both produce and package their product here in the U.S. and then export it directly to them.

This change in shipping point has resulted in a number of challenges for us to face. We now have to look at numerous facets of our operation, from things as basic as now having to order, inventory and utilize Euro pallets for shipping to much larger challenges such as addressing the REACH (Registration, Evaluation, Authorization, and Restriction of Chemicals) issue and its attendant certifications. The REACH issue in particular has been challenging for a small business such as ours to, first, fully understand, and second, to meet the criteria.

REACH is a regulation of the European Union (EU) which came into force in 2007 and addresses the production and use of chemical substances. The 849 pages of legislation have been described as the most complex legislation in the European Union's history and affects industries throughout the world.

REACH requires all companies manufacturing or importing chemical substances into the EU to register those substances with the newly established European Chemicals Agency (ECHA) in Helsinki, Finland. In our case this registration is necessary for every raw material contained in our toner formula.

We were previously REACH compliant through our Belgian branch but with our new direct sales approach from the U.S. we are looked at as a new company and required to make new registrations. While our customer in Germany is technically responsible for the registrations as the importer of the product they have insisted that we handle the registrations. Many European companies will not consider purchasing from outside the EU unless the exporter assumes all REACH registration responsibilities.

The required registration can be handled by establishing a relationship with an organization within the EU termed an “Only Representative” (OR). OR consultancy companies exist outside the EU but it is not possible to register a substance if the OR is not based in the EU unless it is subcontracted to an EU-based registrant. The OR assumes responsibility and liability for fulfilling obligations of REACH for substances being brought into the EU by a non-EU manufacturer. However, the cost of engaging an OR can be in the tens of thousands of dollars, putting it well out of reach of a typical small-business exporter.

As an alternative to engaging an OR ourselves, we have been forced to take another, though no less time-consuming, approach. Each of the suppliers of our raw materials are large companies and all are also non-EU manufacturers. In response to the REACH regulation they have each found it necessary to individually contract with an OR in the EU. As the products which they are supplying to us are fully registered through their ORs we have been able to negotiate agreements with each of them that are allowing us to ‘piggyback’ on their registration by extending their OR appointments to include the distribution of substances via Hunt Imaging to our customer. These negotiations and the subsequent paperwork to effect the relationships have consumed a significant amount of time and a fair amount of legal and consultancy expense.

The REACH issue in Europe is only one of myriad challenges that need to be faced and addressed when a small business is looking to export. For a business without the internal resources to address these challenges it becomes a matter of finding outside assistance which in and of itself can become both time-consuming and cost-prohibitive.

Possibly the biggest exporting challenge for a small business, and certainly ours, is finding international opportunities to pursue. When we were part of a large multinational corporation we had a worldwide network of colleagues who could not only pinpoint opportunities for us but also pursue them on our behalf. As a small stand-alone organization we are challenged to uncover potential sales opportunities and have struggled with identifying domestic resources to assist in that process.

Participating in the trade show circuit, both as an exhibitor and as attendees, has proven to be of limited value to us. In addition to numerous domestic trade shows we also have been an exhibitor at Drupa, the largest printing exhibition in the world, held every four years in Dusseldorf, Germany. This show attracts nearly 2,000 exhibitors and 300,000-400,000 visitors. Again, the results as far as new business have been disappointing. We’ve picked up a few small sales but never anything that has justified the cost of exhibiting nor any business that we can maintain once our doors are closed in Belgium.

Once new customers are identified and a sales agreement is reached the next step is, of course, exporting the product to the customer. After 19 years as an independent organization our knowledge base from

previously being part of a multinational corporation has waned. We now rely very heavily on our freight forwarder to advise us of rules and regulations and have, in fact, passed along power of attorney on export related issues to our freight forwarder.

Large companies in the U.S. are, for all practical purposes, fully globalized. They have a good sense of where their export markets are and what is needed to sell in those markets. They know where to go to finance their foreign sales and have the resources to handle common types of foreign trade barriers to U.S. exports. The situation among small and mid-sized companies in our country is dramatically different.

The economic difficulties over the past few years, coupled with ongoing outsourcing, have put small businesses at a distinct disadvantage in the global economy. NSBA and SBEA have been urging for years—decades, even—that more must be done to emphasize the needs of small business within the scope of U.S. trade in order to enhance exporting opportunities for small U.S. companies. I have been pleased to see in the past few years, there has been a concerted effort by the administration, Congress and regulators to improve and enhance exporting opportunities for small businesses.

What Can Be Done

It should come as no surprise that the results from the NSBA/SBEA Exporting Survey show that fifty-five percent of SME's export to less than five countries. Foreign laws and regulations can change daily, making it increasingly difficult for a small business to stay up-to-date on when and how to comply with these regulations, and it acts as a deterrent to explore new markets. Additionally, the survey highlights that forty-seven percent of small-business owners are the ones handling the bulk of their exporting activities; this is on top of running the day-to-day operations of the business, and oftentimes serving as the accountant, benefits coordinator, attorney and personnel administrator.

One-Stop-Shop

It is critical for policymakers to understand that, for a small business, more information isn't always better information. With more than twenty federal departments and agencies playing some role in international trade, it is important that SMEs have a place to turn. Many of these agencies overlap and offer duplicative services. I would recommend the creation of a One-Stop Shop—ideally within the Department of Commerce and more specifically the International Trade Administration (ITA)—that would have a centralized staff dedicated to field small business "how to" calls on exporting and to assist small businesses in transferring their exporting thoughts and ideas into reality. It would be beneficial to develop a "beginning-to-end" focus on each company—staying with a company from initial inquiry through the completion of the transaction and any necessary follow-up.

Increased coordination between agencies will help more small businesses access the tools they need to export: enhanced export training and technical assistance are key. Especially for small companies that are new to exporting and those with specialty products for exotic markets, there are undeniable fear factors, knowing exactly where to go and who to call could alleviate some of this anxiety which serves as a major barrier to entry into global trade. Cross-agency outreach guides and learning materials on the intended foreign markets with virtual marketplace and virtual trade missions would make it easier and less expensive for small businesses to reach foreign partners.

Trade Agreements

Trade agreements are a vital part of the effort to increase country and customer range, as well as the value of small-business exports. Free trade agreements are extremely important as they lower foreign barriers to our exports and produce a more level playing field. Lowering the “hassle factor” of exporting to specific countries helps to increase the attractiveness of those countries to smaller companies. And when trade agreements succeed in lowering exporting costs, they broaden the range of export profitability for American companies and American products.

For successful negotiations, it is critical the president have the authority to negotiate trade agreements through Trade Promotion Authority (TPA). TPA, which expired in 2007, is crucial to the passage of trade deals through Congress because it allows the agreements to advance under "fast track" rules with no amendments. Without TPA, the U.S. is relegated to the sidelines as other nations negotiate trade agreements without us—putting American workers and companies—especially small ones—at a competitive disadvantage. New and expanded market access through trade agreements has been an important catalyst for increased small business exports. I am pleased to see that Congress has begun consideration on TPA, and am hopeful both chambers will have constructive debate and pass this important legislation as soon as possible.

At Hunt, we consider selling into Canada to be a routine matter; the paperwork is simple and the logistics network is just an extension of our normal domestic carriers. It has been shown that following the implementation of the North American Free Trade Agreement (NAFTA), American SME exports to Canada and Mexico skyrocketed. Small businesses represent over 95 percent of all U.S. exporters to the NAFTA market. This same type of success is achievable with other trade deals.

Currently, the administration is negotiating two broad trade agreements: the Transatlantic Trade and Investment Partnership (T-TIP), with members of the EU and the Trans-Pacific Partnership (TPP) with countries in the Asia-Pacific region. These two agreements would cover 60 percent of American exports and 84 percent of foreign direct investment, both expanding some existing trade agreements and creating opportunities for free trade with more countries.

Given the importance of small businesses to both the European and Asia-Pacific economies, it is vital that these negotiators not only get the details right when crafting the SME-specific chapter, but also ensure that they address the specific needs of small business throughout the entire agreement.

NSBA and SBEA are pleased that trade negotiators have finally realized the need for including a chapter dedicated to small exporter issues in these agreements. It is critical for their long-term usefulness, however, to establish a small-business committee or advisory panel that would engage with the SME community and provide resources and information on understanding the full scope of these agreements and how they can benefit small businesses.

TPP and T-TIP are excellent opportunities for these countries and the U.S. to coordinate approaches and facilitate cross-border trade and investment opportunities for American SMEs. By removing tariffs, making the regulatory process easier to understand, and ensuring companies have access to the information they need to start exporting, these agreements can make a real difference to the increased number of small firms who have expressed interest in exporting, per the NSBA/SBEA survey: from just 43 percent in 2010 to 63 percent in 2013.

Ease Tariffs

If we want American SMEs to export more, it is important to reduce variable costs like tariffs. Many countries impose tariffs on U.S. exports that are ten or twenty times as high as our own, and a web of non-tariff barriers overseas often shuts out U.S. goods and services. At Hunt we have found that our products can often times be classified numerous ways by a single country. Without combing through a maze of product descriptions and classifications we risk having our material placed in a much higher tariff class than necessary.

Also, we need to pay close attention to fixed or “inflexible” costs because those costs can impose disproportionate burdens on SMEs. When it costs \$10,000 in legal fees to comply with a trading rule it is a nuisance for a large company, but it is a potential show-stopper for a small company.

A lot of non-tariff barriers can generate such disproportionate costs. Non-tariff barriers include such items as foreign patent and trademark costs, “physical presence” requirements, paperwork requirements and performance bonds and licenses. Sometimes these disproportionate costs are subtle, such as when a country requires foreign companies to be structured in a certain way to do business there. But even small increases in a company or product’s cost due to tariffs can mean the difference between making and losing a sale for SMEs. NSBA/SBEA supports the elimination of all tariffs across all industries and product lines. Though the tariffs between the U.S. and EU economies are already relatively low, eliminating them would boost bilateral trade by more than \$120 billion in five years, according to a [report](#) from the Centre for Economic Policy Research.

Transparency of Rules and Regulations

Interpreting and comprehending regulations has proven to be a challenge that exhausts a small firm’s human resources and even drains our wallets when we have to turn to outside professionals. The easier it is to understand and comply with a country’s rules without having to hire attorneys, the cheaper it is to get into that market. While we have relied very heavily on our freight forwarder to keep us informed of and in compliance with all necessary rules, it would be much more comforting for us to have a clear way to confirm our own compliance.

New rules and regulations should only occur after notices have been posted online in an easily-accessible format for the public and American companies to provide comments on the impact the new rules would have on their business. Also, all issues raised by U.S. companies should receive written responses with justifications for all new rules. The creation of an SME committee that would analyze and examine the impact of new rules on smaller companies would also be beneficial.

NSBA/SBEA also supports the creation of a centralized website that is monitored and collects up-to-date information on regulation policies and practices pertaining to requirements for shipping, labeling, testing, certifications, and customs clearance for the most commonly traded goods and services. It should be presented in a clear and easy-to-read format, to serve as a resource for businesses looking to navigate the process and enter a new market.

Customs Simplification

Reducing administrative burdens associated with customs procedures, raising the *de Minimis* threshold, eliminating unnecessary double customs controls and simplifying rules of origin could benefit small exporters—especially as a way of reducing red tape and delays at borders. Improving predictability, simplicity and uniformity in border procedures will make it easier for SMEs to participate in trade.

The current *de Minimis* value for goods entering the U.S. is \$200, while the current personal exemption for goods carried into the country is \$800. Duties and taxes are assessed only if the value exceeds \$800. If consumers ship their purchases back to the U.S. that same duty-free limit falls to \$200. This difference arbitrarily penalizes companies—such as mine—that ship products necessary for the production and manufacturing of our goods in the U.S. Streamlining this customs process and matching the \$800 exemption will help American businesses grow their export volume and enter new markets. NSBA/SBEA support the bipartisan efforts in Congress to increase this threshold, which will lower costs for American exporters.

Strong Intellectual Property Protection

Small businesses are the leaders in innovation and creativity that drive job creation and economic growth. Having a strong commitment to intellectual property rights (IPR) is vital in order to protect our innovative products and services, especially because small exporters are highly vulnerable to infringements of our IPR. U.S. small businesses are at a particular disadvantage, because they may lack the knowledge, expertise or resources necessary to prevent the theft of their ideas and products. In fact, research conducted by the United States Patent and Trademark Office found that only 15 percent of small businesses that conduct business overseas know that they need to file for IP protection abroad.

Many small businesses also may not have personnel and operations overseas, so they lack the "eyes and ears" needed to be vigilant globally and the theft of their IP can often go undetected. In addition, small businesses generally do not have the level of access or the resources, such as specialized legal counsel, that may be available to larger companies. NSBA/SBEA endorses the creation of simplified methods for filing and renewing trademark and copyrights to decrease the amount of time and paperwork normally required which in turn will provide more timely enforcement of IPR.

Expand and Improve Export Finance

On a more broad scale, we need to get more community banks into export finance and educate them on available government lending programs so they can better advise their small-business customers who are considering exporting. This can be achieved by streamlining paperwork, externalizing some of the banks' administrative costs for smaller export finance deals, providing export finance training, enhancing outreach to banks on the benefits of trade finance and improving bank recruitment practices.

Hunt just negotiated a new line of credit with a regional bank that allows us to borrow up to 80 percent of outstanding accounts receivable. However, we were unsuccessful in attempting to address the issue of foreign accounts receivable and are unable to borrow any money against receivables that are to be collected from companies outside U.S. borders. This naturally makes it much more difficult for us to financially support new export opportunities that may arise.

The U.S. financial sector is far less engaged in world trade than the financial sectors in Europe, Asia and other parts of the world, where banks themselves encourage business customers with promising products to export. To truly step up American exports, our banks must do more.

While Hunt does not use the Export-Import Bank of the United States (Ex-Im), it is also an important part of the U.S. export strategy for so many small exporters. The Ex-Im Bank is self-supporting and actually has generated excess revenues of nearly \$7 billion dollars since 1992. I cannot understand why the reauthorization of its lending authority has been so controversial. It is crucial the Bank maintain its

congressionally approved lending authority allowing the Bank to operate without restrictions, so companies have the certainty and predictability we need to level the playing field and compete in the international marketplace. Interestingly enough, NSBA's members find this program valuable enough that reauthorization of Ex-Im Bank was voted among our top 10 priorities for the 114th Congress.

These are just some of the recommendations that, if accomplished, could alleviate many of the barriers affecting SMEs and yield significant gains for us and the overall U.S. economy.

Conclusion

While there is no doubt that some of America's biggest companies can continue to increase their exports, the largest untapped resource for American exports is small and medium-size companies. SMEs struggle with real and perceived challenges to exporting. Just over one percent, or 287,000, of the approximately 27.9 million small businesses in the U.S. currently export. With 95 percent of the purchasing market outside of the U.S., small businesses understand the importance of opening new markets and competing in the global marketplace. Although the number of small exporters has been steadily growing their share of overall U.S. exports—34 percent in 2010, up from 27 percent in 2002—exporting is still not as much a part of the business culture in the U.S. as it is worldwide.

Many SME's think exporting is too burdensome or too risky, or they just do not know where to start. As highlighted throughout my testimony, some of the top barriers for small exporters are: (1) problems identifying foreign business opportunities and federal export assistance resources, (2) limited information on how to analyze foreign regulations and contact potential foreign customers, and (3) the need for external financing in order to undertake an export transaction. Federal and state agencies play an important role in helping to reduce these types of exporting barriers for small businesses. Lowering more of these barriers will help small exporters tap into new markets and grow.

Given the specter of a jobless economic recovery and lagging consumer spending, exporting holds many opportunities for small businesses during the domestic economic malaise, and supports long-term domestic growth and job development. Though small business exports represent less than five percent of the GDP, with aggressive support from the U.S. Government this contribution could be significantly increased.

Again, I would like to thank Chairman Chabot and the members of the committee for the opportunity to speak today. I would be happy to answer any questions you may have.