

United States International Trade Commission

**Small and Medium-
Sized Enterprises:
U.S. and EU Export
Activities, and Barriers and
Opportunities Experienced
by U.S. Firms**

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Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms

Investigation No. 332-509



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ABSTRACT

This report examines the extent and composition of U.S. exports by small and medium-sized enterprises (SMEs) and factors that may disproportionately impede U.S. SME exports. It compares the exporting activities of SMEs in the United States with those of SMEs in the European Union (EU); describes barriers and costs associated with exporting, as reported by U.S. SMEs; and identifies the benefits to U.S. SMEs from improvements to the exporting environment resulting from free trade agreements (FTAs) and other trading arrangements.

The U.S. market is more integrated than Europe's, and U.S. firms that export tend to be larger than EU firms that export. This helps to explain one of the Commission's findings: that estimated exports by SME manufacturing firms in the EU in 2005 amounted to approximately \$231–\$275 billion in value (about 31 percent of total EU exports), compared to the \$65 billion in exports (about 13 percent of total U.S. exports) made by similarly defined U.S. SMEs. The study found that while there is little difference between U.S. and EU agencies in granting medium- and long-term export credits, the United States provides a wider range of support for pre-export financing and short-term credit than is generally available in EU countries. On the other hand, SMEs in the EU appear to have access to more sources and a higher level of assistance in foreign markets than U.S. SMEs do, as well as more financial support for participating in international trade fairs.

The barriers to exporting that were noted as the most important by U.S. SMEs at the Commission's public hearings and in written submissions and interviews for this investigation were similar to those that have already been identified by the Organisation for Economic Co-operation and Development. These included insufficient access to finance, complex and sometimes nontransparent domestic and foreign regulations, rising and unpredictable transportation costs, the small scale of SME production, tariff and nontariff barriers, time-consuming foreign customs procedures, language and cultural differences, and lack of knowledge of foreign markets.

U.S. SMEs identified numerous improvements to the exporting environment associated with U.S. FTAs and other trading arrangements, such as mutual recognition agreements, bilateral investment treaties, trade and investment framework agreements, and World Trade Organization agreements. These improvements include tariff reductions, reduction or elimination of nontariff barriers, better market access, easier interactions with customs, trade facilitation, intellectual property protection, a more efficient and transparent regulatory environment, and dispute resolution mechanisms.

CONTENTS

| | <i>Page</i> |
|--|-------------|
| Abstract | i |
| List of Frequently Used Abbreviations and Acronyms .. | xi |
| Executive Summary | xiii |
| Chapter 1: Introduction | 1-1 |
| Purpose | 1-1 |
| Scope and approach of the report | 1-1 |
| Information sources | 1-2 |
| SME definition | 1-3 |
| Organization of the report..... | 1-3 |
| Global context for SME exporting activities | 1-4 |
| Chapter 2: Comparison of Exporting Activities of U.S. and EU SMEs | 2-1 |
| Overview of SME exporting activities in the United States and in other leading economies | 2-1 |
| Definition of SME | 2-1 |
| Cross-country comparison of SME exporting activities | 2-2 |
| Share of SMEs that export..... | 2-4 |
| SME exports as a share of total exports..... | 2-4 |
| Export as a share of total revenue | 2-4 |
| Destination of SME exports..... | 2-5 |
| A comparison of SME exporting activities in the United States relative to the European Union | 2-6 |
| Analytic methods | 2-7 |
| Structural differences between the United States and the European Union explain differences in SME export performance..... | 2-8 |
| U.S. SME exporters are relatively more likely to be intermediaries | 2-10 |
| U.S. export-oriented wholesale firms are larger than EU wholesale firms..... | 2-11 |
| U.S. and EU employment growth for manufacturing during 2002-06 was better for SMEs than for large firms | 2-12 |
| U.S. SME exports share is lower in nearly every sector..... | 2-14 |
| SME productivity is as high in the United States as in the European Union— or higher | 2-17 |
| U.S. and EU support for SME exporting activities | 2-17 |
| Information sources | 2-17 |
| SME business environment in the United States and the European Union | 2-18 |
| Barriers to SME exporting activities | 2-20 |
| Export promotion for SMEs | 2-22 |
| U.S support for SME exporting activities..... | 2-24 |
| National policies and programs supporting SME exporting activities | 2-24 |

CONTENTS—Continued

| | <i>Page</i> |
|---|-------------|
| Chapter 2—Continued | |
| State and local programs supporting SME exporting activities | 2-25 |
| National Export Initiative | 2-26 |
| EU support for SME exporting activities..... | 2-26 |
| Small Business Act for Europe | 2-27 |
| Summary comparisons of U.S. and EU support for SME exporting activities..... | 2-29 |
| European institutional support for SME exporting activities: Selected EU countries..... | 2-31 |
| France | 2-32 |
| Economic overview | 2-32 |
| SME business environment | 2-33 |
| SME exporting activities | 2-34 |
| Exporting constraints facing SMEs | 2-36 |
| National policies and programs supporting SME exporting activities | 2-37 |
| Germany | 2-41 |
| Economic overview | 2-41 |
| SME business environment | 2-42 |
| SME exporting activities | 2-44 |
| Exporting constraints facing SMEs..... | 2-45 |
| National policies and programs supporting SME exporting activities | 2-47 |
| Ireland | 2-50 |
| Economic overview | 2-50 |
| SME business environment | 2-51 |
| SME exporting activities | 2-53 |
| Exporting constraints facing SMEs..... | 2-53 |
| National policies and programs supporting SME exporting activities | 2-56 |
| Poland | 2-59 |
| Economic overview | 2-59 |
| SME business environment | 2-60 |
| SME exporting activities | 2-62 |
| Exporting constraints facing SMEs..... | 2-63 |
| National policies and programs supporting SME exporting activities | 2-66 |

Chapter 3: Views of U.S. SMEs on Barriers to Exporting and Strategies to Overcome those Barriers

| | |
|--|-----|
| Introduction | 3-1 |
| Domestic barriers to SME exporting | 3-1 |
| Access to finance | 3-1 |
| Trade finance | 3-2 |
| Working capital..... | 3-4 |
| U.S. domestic laws and regulations | 3-5 |
| Export controls | 3-5 |

CONTENTS—Continued

| | <i>Page</i> |
|---|-------------|
| Chapter 3—Continued | |
| Difficulties obtaining U.S. entrance visas | 3-8 |
| U.S. tariffs..... | 3-9 |
| Other domestic laws and regulations..... | 3-10 |
| Transport costs..... | 3-10 |
| Small scale production..... | 3-12 |
| Foreign barriers to SME exporting..... | 3-12 |
| Foreign government laws and regulations | 3-12 |
| Protection of intellectual property | 3-15 |
| Customs clearance | 3-17 |
| Foreign tariffs | 3-17 |
| Foreign government support programs | 3-17 |
| Exchange rate fluctuations..... | 3-18 |
| Language and cultural barriers..... | 3-18 |
| Knowledge of foreign markets..... | 3-19 |
| Strategies to overcome barriers to exporting..... | 3-20 |
| Trade associations and coalitions with other firms..... | 3-20 |
| Cooperation with larger companies | 3-22 |
| Government programs | 3-23 |
| Other strategies | 3-25 |
| SME recommendations for increasing exports..... | 3-27 |

Chapter 4: Views of SMEs on Barriers to Exports:

| | |
|--|------------|
| Industry Case Studies | 4-1 |
| Introduction | 4-1 |
| Apple industry | 4-1 |
| Industry background | 4-1 |
| Domestic barriers to exporting..... | 4-3 |
| Foreign barriers to exporting | 4-4 |
| SME strategies for exporting | 4-4 |
| Wine industry | 4-5 |
| Industry background | 4-5 |
| Domestic barriers to exporting..... | 4-6 |
| Foreign barriers to exporting | 4-7 |
| SME strategies for exporting | 4-9 |
| High-technology and related manufacturing industries: Chemicals and nanotechnology | 4-10 |
| Industry background | 4-10 |
| Domestic barriers to exporting..... | 4-11 |
| Foreign barriers to exporting | 4-12 |

CONTENTS—Continued

| | <i>Page</i> |
|--|-------------|
| Chapter 4—Continued | |
| SME strategies for exporting | 4-15 |
| Textiles and apparel industry..... | 4-15 |
| Industry background | 4-15 |
| Domestic barriers to exporting..... | 4-15 |
| Foreign barriers to exporting | 4-16 |
| SME strategies for exporting | 4-18 |
| Medical devices..... | 4-19 |
| Industry background | 4-19 |
| Domestic barriers to exporting..... | 4-19 |
| Foreign barriers to exporting | 4-20 |
| SME strategies for exporting | 4-21 |
| Computer services | 4-21 |
| Industry background | 4-21 |
| Domestic barriers to exporting..... | 4-22 |
| Foreign barriers to exporting | 4-23 |
| SME strategies for exporting | 4-24 |
| Professional services | 4-25 |
| Industry background | 4-25 |
| Domestic barriers to exporting..... | 4-25 |
| Foreign barriers to exporting | 4-26 |
| SME strategies for exporting | 4-27 |
| Chapter 5: Benefits to U.S. SMEs from Increased Export Opportunities | |
| Introduction | 5-1 |
| U.S. participation in free trade agreements and selected other trading agreements | 5-2 |
| Benefits to SMEs of increased export opportunities | 5-2 |
| Increased or improved market access | 5-3 |
| Market access: Selected examples of trade agreement benefits to U.S. SMEs | 5-6 |
| Improved trade facilitation..... | 5-9 |
| Customs procedures | 5-9 |
| Standards harmonization and mutual recognition of certifications | 5-9 |
| Trade facilitation: Selected examples of trade agreement benefits to U.S. SMEs | 5-10 |
| More favorable regulatory environment | 5-13 |
| Regulatory environment: Selected examples of trade agreement benefits to U.S. SMEs..... | 5-13 |
| SME company performance and hurdles | 5-15 |
| Widespread benefits of trade agreements for U.S. SMEs | 5-16 |
| Anecdotal SME support for FTAs..... | 5-16 |
| Measures of SME support for U.S. trading arrangements..... | 5-17 |

CONTENTS—Continued

| | <i>Page</i> |
|--|-------------|
| Chapter 6: Positions of Interested Parties | 6-1 |
| Donald A. Manzullo, U.S. Representative, 16 th District of Illinois | 6-1 |
| Export-Import Bank of the United States | 6-2 |
| U.S. Department of Commerce, U.S. Commercial Service, St. Louis | 6-3 |
| Aeronautical Repair Station Association..... | 6-4 |
| AFRAM Corporation | 6-4 |
| Air Tractor, Inc..... | 6-5 |
| Buhler Quality Yarns Corp..... | 6-5 |
| CID Bio-Science, Inc. | 6-6 |
| The Coalition for Security and Competitiveness (CSC) | 6-7 |
| Dixie Chemical Corporation..... | 6-7 |
| Dutchman Global | 6-8 |
| Electrical Geodesics, Inc. | 6-8 |
| Electron Energy Corporation..... | 6-8 |
| Fanwood Chemical, Inc..... | 6-10 |
| Foreign Trade Association | 6-10 |
| Global Products International, Inc..... | 6-11 |
| The Hardwood Federation and American Hardwood Export Council | 6-11 |
| HBO Latin America Corporation | 6-12 |
| Herkules Equipment Corporation..... | 6-13 |
| The Hosiery Association | 6-13 |
| Hydra-Power Systems, Inc. | 6-14 |
| Independent Film and Television Alliance..... | 6-15 |
| Media Wizard, Inc..... | 6-15 |
| Medical, Laboratory & Technology Consultants | 6-16 |
| The Merry Hempsters, Inc..... | 6-16 |
| MidAmerica St. Louis Airport | 6-17 |
| Midwest-China Hub Commission | 6-18 |
| National Association of Manufacturers (NAM)..... | 6-18 |
| National Institute for World Trade (NIWT) | 6-19 |
| National Minority Business Council (NMBC)..... | 6-20 |
| NIMS Services, Inc. | 6-20 |
| North Carolina District Export Council | 6-21 |
| Northwest Trade Adjustment Assistance Center..... | 6-21 |
| Oregon Department of Agriculture | 6-22 |
| Oregon Nanoscience and Microtechnologies Institute (ONAMI)..... | 6-22 |
| Oregon Tourism Commission dba Travel Oregon | 6-23 |
| Pacific Northwest International Trade Association..... | 6-23 |
| Pacific Seafoods | 6-24 |
| The Port of Portland | 6-24 |
| RAD-CON..... | 6-25 |
| Reddix Corp. | 6-26 |
| Roeslein & Associates, Inc..... | 6-26 |
| Sauereisen, Inc..... | 6-27 |

CONTENTS—Continued

| | <i>Page</i> |
|---|-------------|
| Chapter 6—Continued | |
| Secondary Materials and Recycled Textiles (SMART) | 6-27 |
| Software Association of Oregon | 6-28 |
| Spartan Light Metal Products | 6-28 |
| Sunnen Products Co. | 6-29 |
| Tiba Medical, Inc. | 6-30 |
| TradeMoves LLC | 6-31 |
| U.S. Chamber of Commerce | 6-31 |
| Washington State Potato Commission | 6-32 |
| West Coast Seafood Processors Association (WCSPA) | 6-33 |
| Wine Institute et al. | 6-33 |
| Zoltek Corporation | 6-34 |

| | |
|---------------------------|-----------|
| Bibliography | Biblio -1 |
|---------------------------|-----------|

Appendices

| | |
|---|-----|
| A. Request letter | A-1 |
| B. <i>Federal Register</i> notices | B-1 |
| C. Additional information on chapter 2: EU-U.S. SMEs comparison | C-1 |
| D. Additional information on chapter 5: U.S. FTAs and selected other trading agreements | D-1 |
| E. Overview of the relevant economic literature | E-1 |

Boxes

| | |
|--|------|
| Box 2.1 Why EU firms are so much smaller than U.S. firms | 2-10 |
| Box 2.2 The 2008–09 global recession and its effects on financing in developed countries | 2-21 |
| Box 2.3 OECD standards for export credits | 2-23 |
| Box 2.4 Promoting cross-border region-to-region SME exports: The Netherlands-North Rhine-Westphalia INTER-NED program | 2-51 |
| Box 2.5 Small exporters in western Ireland go global | 2-57 |
| Box 2.6 Sweden and Switzerland support Polish SME exporters | 2-68 |
| Box 3.1 Barriers to exports of services and strategies to overcome the barriers: The case of Systems Integrated | 3-21 |
| Box 3.2 UPS Capital | 3-24 |
| Box 4.1 SME exporters challenged by export control regulations | 4-12 |
| Box 4.2 SMEs find new EU chemical regulatory framework a constraint on exports to Europe | 4-13 |
| Box D.1 Other trading arrangements: WTO, MRAs, BITs, and TIFAs | D-4 |

Figures

| | |
|--|-----|
| 5.1 Trading arrangements create export opportunities with potential to benefit all firms | 5-3 |
|--|-----|

CONTENTS—*Continued*

| | <i>Page</i> |
|---|-------------|
| Tables | |
| ES.1 Comparison of SME exporting activities in the United States and the European Union, 2005 | xv |
| ES.2 Summary of barriers to exporting and strategies to enhance exporting activities as reported by U.S. SMEs | xvi |
| ES.3 Key barriers and strategies to export reported by highly competitive U.S. SMEs, Selected industries | xxi |
| 2.1 SME definitions in the United States, the European Union, Australia, and Canada..... | 2-3 |
| 2.2 Estimated exports and sales for manufacturing firms, by firm size, United States and European Union, 2005 | 2-9 |
| 2.3 Estimated share of exports by firm size and major industry, 2005 | 2-11 |
| 2.4 Estimated exports by firm size and major industry, 2005 | 2-12 |
| 2.5 Employment growth, by firm size, United States and European Union, 2002–2006 | 2-13 |
| 2.6 Estimated exports for manufacturing sectors, by firm size, United States and European Union, 2005 | 2-15 |
| 2.7 Relative productivity by firm size, United States and European Union (European Union = 1), 2002..... | 2-18 |
| 2.8 France, Germany, Ireland, Poland: Selected economic indicators, 2009 | 2-32 |
| 3.1 Barriers to SME export and suggested strategies and recommendations to overcome those barriers | 3-2 |
| 3.2 Policy change recommendations provided by SME representatives..... | 3-28 |
| 4.1 Key findings on export barriers and suggested strategies to overcome those barriers, selected industries | 4-2 |
| 5.1 U.S. FTAs, average tariff rates, by partner | 5-5 |
| C.1 U.S. government support for SME exporting activities, selected programs | C-3 |
| C.2 EC institutional support for SME exporting activities, selected programs | C-8 |
| D.1 U.S. free trade agreements | D-4 |
| D.2 U.S. SME-identified export opportunities and benefits | D-6 |

List of Frequently Used Abbreviations and Acronyms

| | |
|------------|--|
| APEC | Asia-Pacific Economic Cooperation |
| BIT | bilateral investment treaty |
| CAB | conformity assessment bodies |
| CFTA | U.S.-Canada FTA |
| COPR | Canada Organic Product Regulation |
| CTG | WTO Council for Trade in Goods |
| CTRIPS | WTO Council for Trade-Related Aspects of Intellectual Property Rights |
| CTS | WTO Council for Trade in Services |
| DR-CAFTA | U.S.–Dominican Republic-Central America Free Trade Agreement |
| EAR | Export Administration Regulations |
| EC | European Commission |
| EEN | Enterprise Europe Network |
| EIU | Economist Intelligence Unit |
| EU | European Union ¹ |
| EU-27 | All 27 current members of the European Union |
| Ex-Im Bank | Export-Import Bank of the United States |
| FAO | United Nations Food and Agriculture Organization |
| FDA | U.S. Food and Drug Administration |
| FDI | foreign direct investment |
| FTA | free trade agreement |
| GAO | Government Accountability Office |
| GATS | General Agreement on Trade in Services |
| GATT | General Agreement on Tariffs and Trade |
| HS | Harmonized System |
| HTS | Harmonized Tariff Schedule |
| IP | intellectual property |
| IPPC | International Plant Protection Convention |
| IPR | intellectual property rights |
| ISPM 15 | International Standards for Phytosanitary Measures Guidelines for Regulating Wood Packaging Material in International Trade |
| ITA | International Trade Administration, U.S. Department of Commerce |
| ITAR | International Traffic in Arms Regulations |
| IVD | in vitro diagnostic |
| MAA | mutual acceptance agreement |
| MAP | Market Access Program, U.S. Department of Agriculture |
| MFN | most favored nation |
| MOSS | Market-Oriented, Sector-Selective |
| MRA | mutual recognition agreement |
| NAFTA | North American Free Trade Agreement |
| NEI | U.S. National Export Initiative |

¹ The 27 current members of the European Union are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

| | |
|----------------|--|
| NOP | National Organic Program |
| NTB | nontariff barrier |
| NTM | nontariff measure |
| OECD | Organisation for Economic Co-operation and Development |
| OPIC | U.S. Overseas Private Insurance Corporation |
| PCT | patent cooperation treaty |
| R&D | research and development |
| REACH | Registration, Evaluation, Authorization and Restriction of Chemical Substances program (European Union) |
| ROO | rules of origin |
| SBA | U.S. Small Business Administration |
| SBA for Europe | Small Business Act for Europe |
| SME | small and medium-sized enterprises |
| SMM | small and medium-sized manufacturer |
| SPS | sanitary and phytosanitary measure |
| TBT | technical barriers to trade |
| TCC | Trade Compliance Center |
| TIFA | trade and investment framework agreement |
| TRIPS | Trade-Related Aspects of Intellectual Property Rights |
| TRQs | tariff-rate quotas |
| TTB | U.S. Treasury, Tobacco and Alcohol Tax and Trade Bureau |
| UN | United Nations |
| USCS | U.S. Department of Service Commercial Service |
| USDA | U.S. Department of Agriculture |
| USDOC | U.S. Department of Commerce |
| USDOS | U.S. Department of State |
| USEAC | U.S. Export Assistance Center |
| USITC | U.S. International Trade Commission |
| USTR | U.S. Trade Representative |
| WI | Wine Institute |
| WIPO | World Intellectual Property Organization |
| WTO | World Trade Organization |
| WWTG | World Wine Trade Group |

EXECUTIVE SUMMARY

This report is the second in a series of three interrelated reports by the United States International Trade Commission (USITC, the Commission). As requested by the United States Trade Representative (USTR), the reports collectively describe the role of small and medium-sized enterprises (SMEs) in U.S. exports and identify and fill information gaps in the available literature on the subject.¹ This report seeks to assist in the analysis of the performance of U.S. SME firms in exporting compared to that of SME firms in other leading economies.

Specifically, this report examines the extent and composition of U.S. exports by SMEs, as well as factors that may disproportionately impede U.S. SME exports. It compares the exporting activities of SMEs in the United States with those of SMEs in the European Union (EU). It also describes barriers and costs associated with exporting as reported by U.S. SMEs, as well as business strategies that U.S. SMEs adopt to address these constraints. Finally, it identifies benefits reported by U.S. SMEs from increased export opportunities resulting from free trade agreements (FTAs) and other trading arrangements in which the United States participates.

The Commission's first report on SMEs (January 2010) found that while more than 99 percent of U.S. businesses are SMEs, SMEs account for a relatively small share of U.S. exports.² The present report finds that some of the barriers to exporting that were noted as the most important by U.S. SMEs at the Commission's public hearings and from written submissions and interviews for this investigation were similar to those identified in 2009 by the Organisation for Economic Co-operation and Development (OECD).^{3,4} These included insufficient access to finance, problems with domestic and foreign regulations, high transportation costs, the small scale of SME production, tariff and nontariff barriers, burdensome foreign customs procedures, language and cultural differences, and lack of knowledge of foreign markets.

Key Findings

EU Exports More Dependent on SMEs than U.S. Exports

The share of SMEs in U.S. manufacturing activity—and total U.S. exports—is smaller than the share of SMEs in EU manufacturing activity and exports.⁵ SMEs accounted for approximately 19 percent of the value of U.S. sales and almost 40 percent of the value of

¹ The first investigation—inv. no. 332-508, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*—was delivered to USTR on January 12, 2010. The first report defines U.S. SMEs as firms that employ fewer than 500 employees. This is the definition employed by official U.S. government sources, which define SMEs as manufacturing and services firms that employ fewer than 500 employees. In addition to an employment threshold, exporting services firms are also subject to certain revenue thresholds (\leq \$7 million for most services firms, and \leq \$25 million for high-value service firms). See also note 5 below.

² USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, 2010, table 2-1, 2-2.

³ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 7.

⁴ The Commission held public hearings in St. Louis, MO, on March 10, 2010; in Portland, OR, on March 12, 2010; and in Washington, DC, on March 18, 2010.

⁵ The data presented in this section are based on a common U.S.-EU definition of SMEs: firms with fewer than 250 employees. This study's data sources, definitions, and approach are described in chapter 1.

EU sales in 2005.⁶ Similarly, SMEs accounted for approximately 31 percent of the total manufactured goods exported by the EU in 2005, whereas SMEs in the United States accounted for only 13 percent. However, the export intensity of the two markets was comparable. The relatively larger role that European SMEs play in European exports can be explained by the fact that historically the U.S. market has been more integrated than Europe's and has produced comparatively larger firms than in Europe. Other key differences between U.S. and EU SME exporting activities are highlighted in table ES.1 below.

Official Support for SME Exporting: U.S.–EU Comparisons

The governments of most industrialized countries promote SME exporting activities by providing export finance assistance, foreign market information, and a variety of business support services. Such programs address the costs of becoming an exporter—costs that are often too high for small firms. The Commission found the following differences between U.S. and EU export promotion programs and policies:⁷

- ***Trade financing.*** Both the United States and the EU countries support a broad range of trade financing programs that promote SME exporting activities. There is little difference between U.S. and EU export credit agencies with respect to medium- and long-term export credits. The United States, however, provides a wider range of support than is generally available in EU countries for pre-export financing and short-term credit, which is particularly beneficial to SMEs at the early exporting stages. In addition, the U.S. Export-Import Bank (Ex-Im Bank) is generally competitive in terms of overall project finance assistance among export credit agencies of the leading industrialized countries. On the other hand, U.S. domestic content and direct shipping requirements are more restrictive than those of EU export credit agencies.
- ***Representation in foreign markets.*** Through the multiple worldwide networks of assistance centers established at several levels—European Commission (EC), national, and regional—SMEs from EU countries appear to have access to a larger number of sources and level of assistance in foreign markets than is available to U.S. SMEs.
- ***Support for trade fair participation.*** EU countries generally provide more financial support for SMEs to participate in international trade fairs than is available from the U.S. government. Participation in trade fairs was consistently reported by U.S. SMEs to be one of the most cost-efficient and effective ways to help SMEs achieve international recognition and to make contact with potential foreign customers.
- ***Investment promotion.*** Many EU member countries actively seek and promote for inbound foreign investment from small and larger foreign firms as an indirect form of export promotion. For example, Germany and Poland seek foreign investors to build export-oriented manufacturing facilities in those countries; such investment is seen as indirectly supporting the development of exports by local SMEs through supply chain linkages. U.S. policies primarily focus on promoting exports.

⁶ The year 2005 is the most recent year for which a direct comparison can be made.

⁷ This information is intended to be neither a comprehensive catalog of official U.S. or EU programs nor an evaluation of their respective programs, but rather an illustration of key policies and programs that support SME exporting activities.

TABLE ES.1 Comparison of SME exporting activities in the United States and the European Union, 2005

| Comparative factor | Key findings | United States (percent) | European Union (percent) |
|--|--|----------------------------|---|
| SME share of total sales ^a | SMEs account for a smaller share of U.S. manufacturing activity. | 19 | 39.6 ^b |
| SME share of total exports ^a | SMEs account for a smaller share of the value of U.S. exports. | 13 | 31 ^b |
| Exports/sales ratio ^a | U.S. and EU SMEs are approximately equally export-intensive. | 7.1 | 8.2 ^b |
| Share of SME exports by: - manufacturers - wholesalers - other | U.S. exporting SMEs are more likely to be middlemen (wholesalers). | 39 41 20 | 51 ^c 24 ^c 25 ^c |
| Share of exports by wholesalers: - SMEs - large firms | In the United States, exporting wholesalers are more likely to be large firms. | 46 54 | 84 9.9 ^d |
| Share of employment provided by SMEs: ^e - manufacturers - wholesalers | U.S. SMEs account for a smaller share of employment. | 37 56 | 57 ^c 82 ^c |

Source: U.S. Department of Commerce, Eurostat, OECD, and USITC staff estimates.

^aManufacturing sector only.

^bCountries included Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom.

^cCountries included Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Italy, Latvia, Lithuania, Luxembourg, Poland, Slovak Republic, Slovenia, and Sweden.

^dTotals do not sum to 100 percent due to missing data on firm size.

^eData are for 2006.

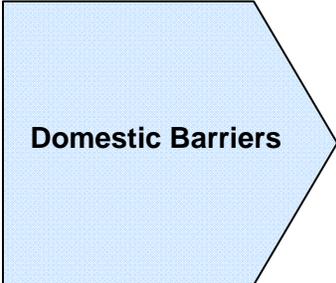
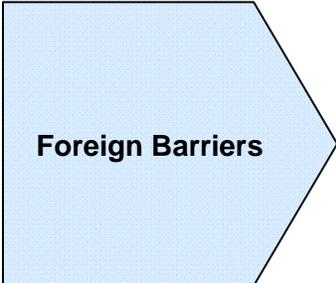
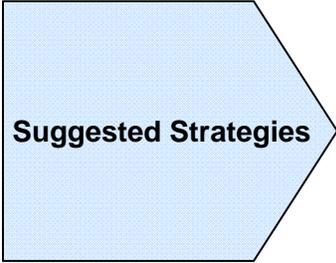
U.S. SMEs' Views on Trade Barriers and Strategies to Increase Exports

U.S. SMEs listed a diverse set of constraints and barriers, as well as strategies they use to address these barriers (table ES.2). They also reported export opportunities and challenges related to FTAs and other trading arrangements. The most frequently reported trade barriers and strategies to exporting include the following:

Domestic Barriers

- ***Access to finance.*** SMEs have difficulty obtaining both trade finance and working capital. This problem often prevents them from financing purchases by foreign buyers, which encourages foreign buyers to choose suppliers that are able to extend credit. SMEs also reportedly lack financing for U.S. exports, particularly pre-

TABLE ES.2 Summary of barriers to exporting and strategies to enhance exporting activities as reported by U.S. SMEs

| | |
|--|--|
|  <p>Domestic Barriers</p> | <ul style="list-style-type: none"> • U.S. government regulation <ul style="list-style-type: none"> ○ Export controls: they require too much paperwork and involve a lengthy, cumbersome, and costly process ○ Difficulty obtaining U.S. visas—e.g., in order to bring foreign employees for training for sales, customer service, repair, etc., or to bring customers to view an SME’s U.S. operations/product lines ○ U.S. tariffs on imported intermediate inputs for U.S. products • Access to finance <ul style="list-style-type: none"> ○ Lack of financing for U.S. SME exporters, for both trade finance and working capital, particularly pre-shipment financing to cover big orders or orders for goods that take time to build ○ Lending institutions’ perception of SMEs as higher risk than larger firms ○ Community banks’ lack of familiarity with exporting • Transport costs <ul style="list-style-type: none"> ○ Container shortages; containers are bottlenecked on the East Coast ○ Port bottlenecks to access markets (e.g., having to ship through Houston, Miami, or Los Angeles for Latin American markets) • Small scale of SME production <ul style="list-style-type: none"> ○ Lack of economies of scale, which limits export potential ○ Limited ability to supply large orders |
|  <p>Foreign Barriers</p> | <ul style="list-style-type: none"> • Foreign government regulations <ul style="list-style-type: none"> ○ Varying labeling, certification, quality, and design requirements from country to country ○ Costly sanitary and phytosanitary (SPS) regulations ○ Inadequate protection of intellectual property (IP) and enforcement of IP laws ○ Lengthy, opaque customs clearance procedures ○ High foreign import tariffs and import restrictions such as quotas and bans • Knowledge of foreign markets <ul style="list-style-type: none"> ○ Limited information to locate or analyze foreign markets ○ Inability to contact potential overseas customers • Language and cultural barriers <ul style="list-style-type: none"> ○ Limited ability to market effectively ○ Limited ability to understand traditions |
|  <p>Suggested Strategies</p> | <ul style="list-style-type: none"> • Pool Resources <ul style="list-style-type: none"> ○ Work with other firms through trade associations or less formal coalitions for SMEs ○ Work with larger firms, brokers, or agents that provide services such as financing and logistics • Use U.S. government programs designated to help exporters <ul style="list-style-type: none"> ○ Use Small Business Administration (SBA) guarantees and small business loans ○ Use Ex-Im Bank to avoid having to use letters of credit ○ Use U.S. Department of Agriculture (USDA) Market Access Program ○ Use U.S. Commercial Service |

Source: Hearing testimony, written submissions, e-mails, and interviews (in person and by phone) with Commission staff.

shipment financing to cover large orders. Another finance-related barrier includes lack of support from banks; since many SMEs are start-ups, with minimal collateral, banks often see them as higher-risk than larger firms.

- ***U.S. government regulations.*** SMEs in many sectors reported that domestic regulations maintained by the U.S. federal and state governments—particularly export controls and visas for foreign nationals to visit the United States—also serve as barriers to exporting. SMEs reported that export controls require considerable paperwork, adding that the process is too lengthy, cumbersome, costly, rigid, inflexible, and bureaucratic. SMEs are concerned about accidentally violating the regulations because of ambiguities in the application of export control regulations to many emerging-technology products. SME representatives also reported poor coordination of government agencies and conflicting advice from different agencies regarding exporting. In addition, they cited difficulties in obtaining U.S. entrance visas to bring foreign employees to the United States for training related to sales, customer service, repair, and other functions, or for potential customers to view the U.S. company’s operations and production lines. Tariffs on intermediate inputs can also serve as barriers to SME exports, in the view of SME respondents.
- ***Transport costs.*** SME executives reported that transportation costs can significantly constrain exports, and certain fixed costs place SMEs at a disadvantage in exporting compared to larger firms. One key constraint cited by SME exporters is container shortages. Data for the Port of Portland alone show an annual shortage of approximately 70,000 containers in 2009. SMEs noted that containers are often bottlenecked on the East Coast, and must be repositioned to West Coast ports for use in exports.
- ***Small scale of production.*** Another key domestic factor limiting U.S. SME exports is the small scale of production. This may limit export potential for SMEs, as foreign buyers may seek out only suppliers able to fulfill large-volume orders, particularly in the agricultural sector.

Foreign Barriers

- ***Foreign government regulations.*** SME representatives reported that the costs of understanding and complying with foreign government regulations can be significant barriers to exporting. Factors that raise costs include the lack of standardized regulations across countries and the administrative costs of compliance (e.g., administrative paperwork; additional record keeping, testing, or certification; and meeting foreign regulations, such as sanitary and phytosanitary (SPS) regulations and packing and labeling requirements). SMEs stated that unreliable protection of intellectual property (IP) was an important barrier to exporting, as SMEs are unlikely to have the resources to protect their IP in foreign markets, as large firms often do. A number of SMEs singled out China as an export market that offered few legal protections against theft of trade secrets, product designs, and other IP infringements. In addition, foreign regulations and import

requirements can result in delays at foreign ports, potentially damaging perishable food or pharmaceutical products. SMEs also noted that high tariffs increase the cost of U.S. exports and that existing trade agreements between their export market countries and third countries offer foreign exporters preferential treatment over U.S. exporters.

- ***Language and cultural barriers.*** SMEs reported that language and cultural differences may be barriers to exporting because such differences make it more difficult for firms to identify and service foreign customers and markets for their products. This problem may be particularly acute for SMEs in the computer services industry, because of the need to provide installation assistance and ongoing customer support.
- ***Limited knowledge of foreign markets.*** SMEs reported that their limited knowledge of foreign markets is a significant barrier to exports, because SMEs do not have the resources to hire staff with the specialized skills needed to identify export opportunities, establish relationships with foreign buyers, understand regulations and compliance rules of importing countries, and obtain export assistance available through various U.S. state and federal government programs.

Suggested Strategies to Reduce Trade Barriers

U.S. SMEs have developed a number of strategies to overcome some of the domestic and foreign barriers to exporting they had identified. These include the following:

- ***Combining forces with other firms in the same industry.*** SMEs reported combining resources either through trade associations or through less formal consortia. Agricultural commodity and trade organizations provide members with support ranging from agricultural research to commodity promotion. Industry consortia allow SME manufacturers to share costs and risks related to regulatory programs and transportation, as well as maximize their foreign market presence.
- ***Working with larger companies, brokers, or agents.*** Larger companies help SME manufacturers achieve the economies of scale needed to meet foreign customer demand. Larger companies also help SMEs by offering professional and legal services to establish business relationships and provide referrals in foreign markets. Brokers and agents facilitate SME exports by matching producers with foreign buyers and providing advice on foreign compliance requirements. Working with global shipping and logistics firms can help SMEs access foreign markets, navigate foreign customs clearance procedures, and track shipments.
- ***Taking advantage of U.S. federal and state government support programs.*** U.S. government programs can be key facilitators of SME exports. These include programs offered by the Ex-Im Bank, the U.S. Small Business Administration, the U.S. Department of Agriculture, the U.S. Department of Commerce, and various state government agencies.

SME representatives noted that many small companies are not aware of these programs, but those that have used them generally found them very helpful in beginning to export and in expanding ongoing exports.

U.S. SMEs' Views on the Benefits of Increased Export Opportunities from FTAs and Other Trading Arrangements

SMEs have identified numerous export opportunities associated with FTAs and other trading arrangements, such as mutual recognition agreements (MRAs), bilateral investment treaties (BITs), trade and investment framework agreements (TIFAs), and World Trade Organization (WTO) agreements. Factors that encourage these expanded opportunities include tariff reduction, reduction or elimination of nontariff barriers, increased market access, customs facilitation, trade facilitation, IP protection, regulatory environment and transparency improvements, and dispute resolution. SMEs most frequently cited the following benefits:

- ***Increased competitiveness in a foreign market.*** This is the benefit most commonly cited by SMEs, who stated that reduced duties made them more competitive or “leveled the playing field” in export markets.
- ***Increased market access.*** SMEs stated that:
 - Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) rules of origin support the participation of U.S. textile SMEs in regional production networks, because for the final products to be eligible for reduced duties when exported to the United States, they must have a certain minimum share of U.S. inputs.
 - U.S. FTAs with Chile, Singapore, and Australia have provided market access for remanufactured goods such as machinery, computers, cellular telephones, medical equipment, automotive parts and equipment, and other devices.
 - Reduced tariff rates on U.S. exports to Canada and Mexico under the North American Free Trade Agreement (NAFTA) have allowed SMEs to reduce costs and improve their competitiveness in these markets.
 - The non-ratification of pending U.S. FTAs with Korea and Colombia has cost U.S. SMEs potential exports to competitors from third countries that have FTAs with these two nations.
- ***Trade facilitation.*** SMEs identified benefits from trade facilitation measures, including improved customs procedures, standards harmonization, and mutual recognition of certifications. One company decided to start exporting to Canada and Mexico because NAFTA “streamlined a lot of paperwork.”
- ***Improved regulatory environment.*** As with other overhead costs, regulations may be more burdensome to SMEs than larger firms, which can spread out these fixed costs over more products or markets. Trading

arrangements can support SMEs by improving and harmonizing regulations and making the regulatory environment more predictable.

- **IP protection.** For many SMEs, IP issues can impede or preclude exports, and trading arrangements that support IP protection and enforcement are critical. Some industry representatives stated that they are more enthusiastic about exporting to Japan, Singapore, and the EU than to China because of IP considerations.

U.S. SMEs' Views on Barriers and Strategies to Increase Exports: Case Studies in Agriculture, Manufacturing, and Services

Specific industry constraints to exporting—as well as strategies to reduce those barriers—were noted by U.S. SME representatives in seven industries across the agriculture, manufacturing, and services sectors: apples, wine, chemicals and nanotechnology, textiles and apparel, medical devices, computer services, and professional services (table ES.3). These industries were chosen as case studies because in all of them, SMEs are well represented and are competitive actors.

Trade barriers common to all these industries are (1) limited access to trade financing and working capital and (2) complex domestic and foreign regulations. Specific barriers to exports of apples and wine include relatively small-scale production, SPS measures, and high tariffs. U.S. export controls are important barriers in computer services and in chemicals and nanotechnology, while cultural and language barriers confront the computer services and professional services industries. Other barriers cited by SMEs in these industries include labeling regulations, greater levels of support given to foreign competitors by their home nations, and transportation costs.

To increase exports of apples, wine, chemicals and nanotechnology, and professional services, SMEs create or join industry associations to pool resources dedicated to market research, promotion, and services to resolve international trade issues. Another strategy adopted by SMEs in these industries, as well as by the textiles and apparel industry, is to make use of U.S. government programs such as the USDA Market Access Program (MAP) and the U.S. Commercial Service. Medical device SMEs seek financing from venture capital firms, while SMEs in computer services partner with other firms to overcome some of their barriers to export.

TABLE ES.3 Key barriers and strategies to export reported by highly competitive U.S. SMEs, selected industries

| Industry | Domestic and foreign trade barriers to export | Strategies to overcome trade barriers |
|-------------------------------------|--|--|
| Apples | <ul style="list-style-type: none">Limited access to capital and financing; small volumes and inadequate product varieties; and limited sales staffs and resources dedicated to exporting. SPS measures are the primary barriers that keep U.S. apple exports from all producers out of certain foreign markets. However, SPS protocols have a greater impact on smaller producers who are not able to spread the costs of implementing those protocols over a larger volume of produce. | <ul style="list-style-type: none">Consolidate product through larger packers and marketers to increase exporters' product offerings and minimize risk; create industry associations that provide market research, promotion, and services to resolve international trade issues; and use promotion programs and services provided by various U.S. government programs and agencies. |
| Wine | <ul style="list-style-type: none">Lack of resources dedicated to exporting; relatively small-scale production; and a primary focus by SMEs on the U.S. market.High tariffs, together with trade agreements between competitor nations; compliance issues, including SPS measures and labeling regulations; limited knowledge of U.S. wine in foreign markets; longer contract terms abroad; and a higher level of support provided by competitor nations to their wine sectors. | <ul style="list-style-type: none">Organize into regional industry groups to pool resources dedicated to market research, product promotion, and identification of potential export customers; and use U.S. government export promotion programs, including the USDA Market Access Program (MAP). SMEs also increasingly employ agents and brokers specializing in foreign markets to gain export market share. |
| Chemicals and nanotechnology | <ul style="list-style-type: none">U.S. export controls; U.S. state and federal environmental and health regulations (particularly for new products such as nanomaterials); and transportation costs.The new EU chemical regulatory system; EU directives; labeling requirements; and EU member state requests for additional product information. | <ul style="list-style-type: none">Approach issues together with other SMEs to share costs and risk and to maximize market presence; use U.S. Department of Commerce export promotion programs. |
| Textiles and apparel | <ul style="list-style-type: none">Challenges in prospecting for foreign customers; understanding customs and foreign regulations; and receiving payment from foreign customers. | <ul style="list-style-type: none">If foreign firms in the sector are highly automated, compete with them either by addressing niche markets or by emphasizing quality. |
| Medical devices | <ul style="list-style-type: none">Complex regulatory procedures; lack of access to capital; and inadequate reimbursement from foreign health insurers. | <ul style="list-style-type: none">Seek financing from venture capital firms; work with the U.S. Commercial Service and private sector consulting firms to explore market opportunities abroad. |
| Computer services | <ul style="list-style-type: none">Export controls on encryption software; limited access to export finance; regulations on data security; and language barriers. | <ul style="list-style-type: none">Partner with other firms and adopt innovative pricing models. |
| Professional services | <ul style="list-style-type: none">Limited availability of skilled workers; cultural and language barriers; and nontransparent regulation in many foreign countries. | <ul style="list-style-type: none">Leverage relationships, join networks of SMEs, seek employees with international experience, and promote U.S. codes and standards abroad. |

Sources: Hearing testimony, written submissions, e-mails, and interviews (in person and by telephone) with Commission staff.

CHAPTER 1

Introduction

Purpose

This report is the second in a series of three interrelated investigations undertaken by the United States International Trade Commission (USITC, or the Commission) in response to a request from the United States Trade Representative (USTR). Collectively, these reports describe the role of U.S. small and medium-sized enterprises (SMEs) in U.S. exports.¹

This report provides (1) a comparison of exporting activities of SMEs in the United States and European Union (EU) based on information gathered regarding firm characteristics, sectoral composition, exporting behavior, and other characteristics that highlight differences between U.S. and EU SME behavior; (2) a description of the barriers to exporting as reported by U.S. SMEs, including both domestic and foreign barriers and trade costs, as well as a description of the strategies adopted by U.S. SMEs to overcome these constraints; and (3) a description of the benefits to U.S. SMEs of increased export opportunities from free trade agreements (FTAs) and other trading arrangements.

This report builds on the findings of the first report in this series, published in January 2010.² Specifically, the Commission's first report provided an overview of the current state of SMEs' participation in U.S. merchandise and services exports. It presented the value of overall SME exports; listed the principal products, sectors, and destination markets involved; and analyzed the trends of those exports over time. It also described SME characteristics, explained their role in generating domestic employment and economic activity, and highlighted areas in which data limitations inhibit a more comprehensive understanding of SME participation in U.S. exports. A forthcoming third report will identify, to the extent possible, ways of overcoming some of the data problems described in the first report to provide a fuller understanding of SMEs' role in overall U.S. exports. The third report will also identify trade barriers that may disproportionately affect SME export performance, as well as possible linkages between exporting and SME performance.³

Scope and Approach of the Report

This report encompasses SMEs in all sectors of the economies of the United States and the European Union. The comparison of exporting activities of U.S. and EU SMEs is based on qualitative information supplemented with quantitative information. The qualitative analysis focuses on four EU member countries—France, Germany, Ireland, and Poland. These countries were selected as representative of the economic diversity that characterizes the European Union. A detailed quantitative analysis of U.S. and EU

¹ See October 5, 2009, USTR letter to the USITC (appendix A).

² See USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, 2010.

³ The third SME report, "Small and Medium-Sized Enterprises: Characteristics and Performance," is to be completed by October 6, 2010. For further information see 74 Fed. Reg. 65787 (December 11, 2009).

SME exporting activities is also provided, using comparable U.S. and EU economic data from the Trade by Enterprise Characteristics (TEC) database of the Organisation for Economic Co-operation and Development (OECD).

The report also presents U.S. SMEs' views on barriers to exporting, strategies to overcome those barriers and other trade costs, and policy recommendations to increase U.S. exports. It recounts the views of U.S. SMEs on the U.S. economy as a whole and on seven specific industries in the agriculture, manufacturing, and service sectors. The seven industries are apples, wine, chemicals and nanotechnology, textiles and apparel, medical devices, computer services, and professional services. They were selected because SMEs are well represented and highly competitive in all of these industries.

The report also identifies the benefits to U.S. SMEs of improved export opportunities from FTAs and other trading arrangements, such as mutual recognition agreements, bilateral investment treaties, trade and investment framework agreements, and World Trade Organization agreements. This information is primarily qualitative.

The information presented in this report on the views of U.S. SMEs reflects the views of those particular SME representatives, not the views of the Commission. The Commission did not corroborate the views of SME representatives that are presented in this report. In most cases, the barriers to exporting discussed in this report are common to all U.S. firms, SMEs or otherwise, although SMEs may be especially vulnerable to them. The third report will describe trade barriers that affect SMEs disproportionately.

Information Sources

This report is based on information from a variety of sources. Information on U.S. SMEs was gathered at three public hearings held in St. Louis, MO (March 10, 2010), Portland, OR (March 12, 2010), and Washington, DC (March 18, 2010). A total of 33 witnesses appeared at these public hearings. The Commission also solicited information through written submissions from interested parties (those submissions are summarized in chapter 6). Commission staff also contacted approximately 260 organizations and companies through domestic fieldwork, meetings, telephone interviews, and e-mail exchanges. For instance, Commission staff met with representatives of 154 organizations in interviews in 12 U.S. cities, covering approximately 112 SMEs, 24 trade associations, and 18 state and federal organizations.⁴ In addition to information obtained from the fieldwork, Commission staff contacted 73 companies, 26 organizations, and 7 state and federal organizations for the seven industry sectors discussed in chapter 4.

The information on SME exporting activities was obtained from publicly available sources, largely consisting of national business surveys and other economic literature. In addition, Commission staff traveled to France, Germany, Ireland, and Poland to collect information on EU and individual countries that promote exports by European SMEs. Commission staff conducted 30 interviews with representatives of multinational institutions, including the European Commission and the OECD; various branches of member country national governments; industry associations; academia; nongovernmental organizations; and selected SMEs. Other data sources included other U.S. and foreign government agencies, private sector surveys, and international

⁴ Those cities were Irvine, Los Angeles, and Torrance, CA; Boston, MA; New York, NY; Houston, TX; Miami, FL; Raleigh, Sanford, Charlotte, and Mt. Airy, NC; and Washington, DC.

organizations, such as the OECD and the World Bank, as well as relevant academic literature. Information sources also included published information and documents posted on official U.S. government and EU and member countries' Web sites, and interviews with U.S. government officials in Washington, DC, including the U.S. Department of Commerce Commercial Service, the Small Business Administration (SBA), and the Export-Import Bank of the United States. Commission staff also obtained data and other information from private organizations such as the U.S. Chamber of Commerce and the National Association of Manufacturers.

The OECD Trade by Enterprise Characteristics (TEC) database provided comparable data on U.S. and EU SME trade for the year 2005. Other business data were provided by the SBA Statistics of U.S. Businesses database (for U.S. SMEs) and the Eurostat Structural Business Statistics database (for EU SMEs).

SME Definition

Making a direct statistical comparison between U.S. and EU SME exporters involves many challenges. Foremost among them is the fact that the United States and the European Union use different definitions for "SME." Those definitions are described in more detail in chapter 2.

This report defines SMEs in the U.S. economy overall as enterprises with fewer than 500 employees in the agriculture, manufacturing, and service sectors. The Commission's January 2010 report on SMEs observed that several U.S. government agencies, including the SBA, the U.S. Department of Agriculture, and the U.S. Census Bureau, define small businesses and small farms in various industries using a variety of employee, revenue, and asset criteria.⁵ These size categories, however, define which firms are small businesses relative to specific industries, rather than the economy as a whole. Since this report analyzes the role of SMEs throughout the economy, the Commission has employed an economy-wide, rather than industry-specific, definition of SMEs.

With regard to the agriculture and service sectors, the SME definition used in this report differs somewhat from that of the Commission's January 2010 SME report by focusing on the employment limit and not on the annual revenue limit. This is due primarily to the nature of the research in the current report, which relies heavily on hearing testimony, written submissions, and interviews with individual firms, where the firm's revenue information is generally not available. For agriculture, the \$250,000 annual revenue limit used as a component of the definition of SMEs in the January 2010 report refers only to small farms. However, the discussion of the wine and apple industries in the current report refers primarily to agricultural SME exporters that are not small farms (orchards) but rather wineries and packers.

Organization of the Report

This report contains six chapters. In addition to discussing the objective and scope of this report, chapter 1 provides a global context for SME exporting activities.

⁵ USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, 2010, 1-2 to 1-3.

Chapter 2 compares SME exporting activities in the United States with those in the European Union. It begins with an overview describing SME exporting activities in the United States and in other leading economies. It then compares exporting activities in the United States and in the European Union, based on such statistics as the SME share of manufacturing exports and the exports/sales ratio. The chapter then describes selected U.S. and European Commission SME export promotion programs. Finally, to give a more complete picture of EU support for SME exporting activities at the national level, the chapter concludes with case studies on four EU countries—France, Germany, Ireland, and Poland.

Chapter 3 offers information on domestic and foreign barriers to exporting as reported by U.S. SMEs, as well as the strategies that these enterprises reported as effective in overcoming such barriers. This chapter also summarizes suggestions for policy changes to increase exports that SME representatives offered in the course of the investigation.

Chapter 4 builds on chapter 3 by giving more detailed information on barriers to SME exporting and on strategies to address these barriers in seven industry case studies. The case studies represent the agricultural sector (wine and apples), manufacturing sector (textiles and apparel, medical devices, and chemicals and nanotechnology), and the service sector (professional services and computer services).

Chapter 5 provides a brief overview of the export opportunities provided by FTAs and other selected trading arrangements, such as mutual recognition agreements, bilateral investment treaties, trade and investment framework agreements, and World Trade Organization agreements.

Chapter 6 presents the positions of interested parties, based on hearing testimony and written submissions. The five appendices at the end of the report include USTR's request letter, the *Federal Register* notices issued in connection with this investigation, additional information on topics covered in chapters 2 and 5, and an overview of the relevant economic literature.

Global Context for SME Exporting Activities

SMEs are the most common form of business organization and the principal creators of jobs in the world. They account for more than 95 percent of manufacturing enterprises and an even higher share of firms in many service industries in OECD countries.⁶ They are also the source of the majority of business and employment in many Asia-Pacific Economic Cooperation (APEC) countries⁷ and in Latin American countries.⁸ More than 99 percent of U.S. businesses are SMEs.⁹ SMEs are also closely associated with innovation—the development, deployment, and economic utilization of new products,

⁶ OECD, *SME and Entrepreneurship Outlook, 2005*, 2005, 9.

⁷ APEC, "How APEC SMEs Can Contribute to Inclusive Growth and Benefit from It," 2009, 1.

⁸ SMEs account for 99 percent of all enterprises in Chile and Mexico, and 90 percent of enterprises in Colombia. SMEs reportedly account for almost 75 percent of employment in Mexico, while medium-sized enterprises account for more than 50 percent of employment in Chile and Colombia. ECLAC, "Proyecto CEPAL/GTZ," 2003.

⁹ USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, 2010, 2-2, table 2-1.

processes, and services. SMEs conduct an increasing share of research and development (R&D), and in some OECD countries SMEs are almost as innovative as large firms.¹⁰

SMEs also provide entrepreneurship opportunities for women, minorities, and immigrants. U.S. data show immigrant-owned small businesses generate nearly 12 percent of U.S. business income.¹¹ Another source reported that minority-owned small businesses account for 18 percent of all U.S. businesses.¹² Given the large populations in Africa, Asia, and Latin America and the rapidly growing market of middle-class consumers in those countries, “the [U.S.] minority business community represents an untapped resource for us in reaching this market that represents approximately 80 percent of the world’s population”;¹³ consequently, according to this source, it is important for U.S. government assistance to help make minority-owned SMEs “export ready.”¹⁴ Similarly, data from the European Commission (EC) show that “proportionately more migrants and members of ethnic minorities than nationals start small businesses” in Europe.¹⁵ A Canadian study likewise reported that a relatively high proportion of majority female-owned SMEs engaged in new exporting activities, and that SMEs owned by “visible minorities” and immigrants were more likely to begin new exporting activities.¹⁶

A number of factors can motivate SMEs to become global, including:

- ***A small firm’s desire to grow by expanding beyond the domestic market.*** Specific growth-related motives may include a small firm’s desire to expand its business, increase its profits, expand its market size, strengthen its market position, and reduce its dependence on a single or small number of markets.¹⁷ Exporting allows SMEs to diversify their business operations and insulates them against periods of slower growth in the domestic economy.¹⁸ Growth motives are consistently identified among the key drivers of globalization in the economic literature.¹⁹ One study reported that firms whose owners had expressed growth intentions for the firm were more likely to export than those whose owners did not indicate growth ambitions.²⁰
- ***Supply chain linkages to larger exporting firms.*** Sources in Germany stated that successful SME exporters were often associated with being regular suppliers of components to larger firms in foreign markets. Larger firms reportedly often prefer to maintain such relationships to standardize their product in different markets, rather than to rely on slightly differentiated components being supplied in individual markets. Sources stated that many German SMEs would not export

¹⁰ OECD, *SME and Entrepreneurship Outlook*, 2005, 35; OECD, *Promoting Entrepreneurship and Innovative SMEs in a Global Economy*, 2004, 8–9.

¹¹ SBA, *Report to the President: The Small Business Economy, 2009*, 2009, iv.

¹² Data are for 2002. USITC, hearing transcript, March 18, 2010, 73 (testimony of Fritz-Earle McLymont, National Minority Business Council).

¹³ USITC, hearing transcript, March 18, 2010, 72 (testimony of Fritz-Earle McLymont, National Minority Business Council).

¹⁴ *Ibid.*, 74.

¹⁵ EC, Directorate-General for Enterprise and Industry, “Migrant Entrepreneurs/Ethnic Minority Entrepreneurs,” 2009.

¹⁶ Data are for 2004. Orser, Riding, and Carrington, *Canadian SME Exporters*, 2008, 19.

¹⁷ Palich and Bagby, “Trade Trends in Transatlantica,” 2007; Hessels and Terjesen, “Resource Dependency and Institutional Theory Perspectives,” 2010.

¹⁸ USDOC, ITA, *Trade Finance Guide*, 2008, 1.

¹⁹ OECD, *Top Barriers and Drivers to SME Internationalisation*, 13.

²⁰ Orser, Riding, and Carrington, *Canadian SME Exporters*, 2008, 18.

without such linkages to larger firms.²¹ Gaining access to the global supply chains of larger firms is one way for SMEs to offset some of their resource constraints.²² However, one study showed that supply chain relationships can sometimes lock SMEs into a restrictive relationship, making them overly dependent on intermediaries and unable to independently expand their market presence.²³

- ***The “push” effects of a limited or stagnating domestic market.*** Domestic economic conditions can “push” SMEs to export. Firms in a stagnating region of a country may be likelier to export than firms in other regions, especially if that region has local incentives to export and good export infrastructure. In much the same way, firms in one sector may be more apt to export than those in other sectors if that sector already has a significant presence of foreign buyers.²⁴
- ***Knowledge-related competitive advantages.*** Firms with such advantages appear more motivated to pursue international business activities. This seems to be particularly true of SMEs whose owners or managers have an international background or interest that provides special knowledge about a foreign market, such as language skills, an understanding of consumer preferences, and the business environment.²⁵ Firms managed by an individual with an immigrant background (which may confer special knowledge about a foreign market) were also more likely to export.²⁶
- ***Technology-related factors.*** The search for new technology, skills, and resources can be factors that “pull” small firms into global business operations.²⁷ On the other hand, small firms that enjoy innovation-related advantages such as a unique product or technology may be competitively positioned to enter global markets.²⁸
- ***Personal connections in other markets.*** Sources reported that personal connections or business contacts were the most important way for SMEs to enter foreign markets.²⁹ Business network connections with other firms and even family connections abroad have been shown to be important drivers of SME internationalization.³⁰

The benefits of SME engagement in international business operations have been well documented. For example, exporters have been found to outperform non-exporters in terms of number of workers, wages, productivity, and technology intensity.³¹ The OECD also reported that internationalization benefits SMEs through greater access to new markets, improved resource utilization and productivity, and increased exposure to

²¹ German academic representatives, interview with USITC staff, April 7, 2010; German industry representatives, interview with USITC staff, April 9, 2010.

²² OECD, *Top Barriers and Drivers to SME Internationalisation*, 15.

²³ Tambunan, “Facilitating Small and Medium Enterprises in International Trade,” 2009, 17.

²⁴ *Ibid.*, 14.

²⁵ Knight, “Entrepreneurship and Strategy in the International SME,” 2001; Orser, Riding, and Carrington, *Canadian SME Exporters*, 2008.

²⁶ Orser, Riding, and Carrington, *Canadian SME Exporters*, 2008, 18.

²⁷ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 13.

²⁸ Hollerstein, “Determinants of International Activities: Are SMEs Different?” 2005; Lefebvre, Lefebvre, and Bourgault, “R&D-Related Capabilities as Determinants of Export Performance,” 1998; and Orser, Riding, and Carrington, *Canadian SME Exporters*, 2008, 18.

²⁹ Chambers and Shaw, “Reaching Out: Exploring SME Exporting Opportunities and Challenges.”

³⁰ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 13.

³¹ Bernard and Jensen, “Why Some Firms Export,” 2001.

international best practices, knowledge, and technology via the pressures—competitive, yet also creative—of the international trading environment.³²

³² OECD, *Removing Barriers to SME Access to International Markets*, 2008, 14.

CHAPTER 2

Comparison of Exporting Activities of U.S. and EU SMEs

This chapter compares exporting activities of SMEs in the United States to those of SMEs in other leading economies, with a particular focus on the countries of the European Union (EU). It begins with a cross-country overview comparing SME exporting activities in the United States and in other leading economies. Next, a quantitative analysis compares U.S. and EU SMEs' exporting activities in the United States and in the EU, based on such statistics as the SME share of manufacturing exports and the exports/sales ratio. Following that analysis, selected U.S. and European Commission (EC)¹ SME export promotion programs are described. Finally, to provide a more complete description of EU support for SME exporting activities at the national level, the Commission conducted case studies on France, Germany, Ireland, and Poland—countries selected as representatives of the economic diversity that currently characterizes the EU.

Overview of SME Exporting Activities in the United States and in Other Leading Economies

Exporting is typically the way SMEs reach beyond their country's borders to access the global economy. However, as the Organisation for Economic Co-operation and Development (OECD) has observed, SMEs use multiple forms of international engagement, including subsidiary relationships, importing, and other forms of cross-border cooperation.² A significant portion of the economic literature describing SME international business operations uses the terms “internationalization” or “globalization” of SMEs. In addition to exporting, these broader terms include such activities as foreign direct investment (FDI), improving access to new technologies, participation in international value chains, and other forms of inter-SME cooperation.³ For the purposes of this report, however, only SME exporting activities are described.

Definition of SME

There is no single globally accepted definition of SME.⁴ Countries use different definitions for a variety of reasons, including the need to scale the terms “small” and “medium” to meaningful levels, given the typical size of firms and level of economic activity in the country. Moreover, some countries' legal definitions of SMEs differ from

¹ The EC is the executive body of the EU responsible for planning and implementing common policies, executing the budget, managing EU programs, and ensuring that EU laws are applied. EC, “Europa Glossary: European Commission,” n.d.

² OECD, *Removing Barriers to SME Access to International Markets*, 2008, 19–20.

³ EC, Directorate-General for Enterprise and Industry, *Supporting the Internationalisation of SMEs*, December 2007, 8.

⁴ For a detailed discussion of the U.S. definition of SME, see USITC, *Small and Medium-sized Enterprises: Overview of Participation in U.S. Exports*, 2010, 1–2.

the statistical definitions they use.⁵ However, definitions typically require SMEs to be independent firms, and also are typically based on firm size limits according to the number of full-time employees. In addition, definitions of SME sometimes include thresholds of firm financial performance, such as the value of annual sales, annual revenue, or turnover (total revenue minus indirect taxes). Farms are sometimes excluded or separately accounted for in SME definitions (for example, defined by revenue) because many “large” farms operate with very few workers.

In contrast to the proliferation of definitions of SME in most of the world, the EU member countries are beginning to converge on a single definition of SME. The EC reported that a common definition of SME had been “widely applied” since 2001⁶ and recommended that EU members adopt a standard definition of SME so that enterprises would be treated uniformly across the EU.⁷ Nonetheless, USITC field investigations at various EU institutions suggest that while a harmonization of SME definitions has begun, different institutions at national and subnational levels still employ different definitions.⁸ A new common definition of SME with updated financial thresholds entered into force for EU members on January 1, 2005.⁹ Use of this definition is voluntary on the part of EU members, but the EC is encouraging all member countries “to apply it as widely as possible.”¹⁰

Table 2.1 compares the statistical definition of SME used by the United States with definitions used by selected industrialized countries.¹¹ The employment threshold for SMEs in the United States of fewer than 500 employees is significantly higher than the threshold used by most other industrialized countries.

Cross-Country Comparisons of SME Exporting Activities

Because there is no single globally accepted definition of SMEs, available individual country data on SME activities generally are not directly comparable (apart from EU countries using the common EU definition of SME) unless a post hoc effort is undertaken to make country SME data sets roughly comparable—as is done later in this chapter to compare U.S. and EU SME exporting activities using a standard definition for SME as having 250 or fewer employees. Nevertheless, the available information on SMEs allows certain general observations to be made comparing SME exporting activities globally.

⁵ UN, Department of Economic and Social Affairs Statistics Division, “SME Statistics,” 2004, 8.

⁶ Pursuant to EC Recommendation 96/280/EC (April 3, 1996).

⁷ EC, Directorate-General for Enterprise and Industry, *The New SME Definition*, n.d., 32.

⁸ French academic representative, interview with Commission staff, April 12, 2010; OECD official, interview with Commission staff, April 14, 2010; Irish academic representative, interview with Commission staff, April 15, 2010.

⁹ Pursuant to EC Recommendation 2003/361/EC (May 20, 2003).

¹⁰ EC, Directorate-General for Enterprise and Industry. *The New SME Definition*, n.d., 6.

¹¹ For additional discussion of cross-country definitions of SMEs, see OECD, *Promoting Entrepreneurship and Innovative SMEs in a Global Economy*, 2004, 10–12.

TABLE 2.1 SME Definitions in the United States, the European Union, Australia, and Canada

| Country or Region | Definition | | | | |
|-------------------|-------------------------------|--|--|-------------------------|--------------------|
| United States | | All manufacturing firms and non-exporting service firms ^a | Exporting service firms ^b | | Farms |
| | | | Most | High value ^c | |
| | Number of employees | < 500 | < 500 | < 500 | < 500 ^d |
| | Annual revenue | Not applicable | ≤ \$7 million | ≤ \$25 million | ≤ \$250,000 |
| European Union | | Number of employees | < 250 | | |
| | | Annual turnover ^e | ≤ €50 million (\$61 million ^f) | | |
| | | OR | | | |
| | | Balance sheet total ^g | ≤ €43 million (\$52 million ^f) | | |
| Australia | | SME (nonfarm) | | | |
| | | Number of employees | ≤ 200 employees | | |
| | | SME (farm) | | | |
| | Estimated value of operations | A\$22,500–A\$400,000 (\$18,866–\$335,400 ^h) | | | |
| Canada | | Number of employees | < 250 | | |
| | | Annual revenue | < C\$50 million (\$48 million ⁱ) | | |

Sources: USITC, *Small and Medium-sized Enterprises: Overview of Participation in U.S. Exports*, 2010, table 1.1, 1-3; EC, Directorate-General for Enterprise and Industry, *The New SME Definition: User Guide and Model Declaration*, undated, 14 and 16; Government of Australia, Australian Bureau of Statistics, "Definition of Small Business," April 3, 2009; Government of Canada, Industry Canada, "Small Business Quarterly," February 2010; IMF, "Representative Exchange Rates for Selected Currencies," June 1, 2010.

^a Includes exporting and nonexporting manufacturing firms and nonexporting services firms.

^b Selected by the Commission on the basis of size and export potential, and includes wholesale trade services; professional, scientific, and technical services; and finance and insurance services.

^c Computer services was the only sector in this category.

^d This threshold was imposed by USITC staff to partially harmonize definitions across sectors.

^e Annual turnover equals the firm's annual value of income from sales and services less rebates paid; does not include value-added tax or other indirect taxes paid.

^f Based on an exchange rate of US\$1.00 = €0.8227 (as of June 1, 2010).

^g Annual balance sheet total refers to the value of a firm's main assets.

^h Based on an exchange rate of US\$1.00 = A\$1.1926 (as of June 1, 2010).

ⁱ Based on an exchange rate of US\$1.00 = C\$1.0479 (as of June 1, 2010).

Share of SMEs That Export

Despite the increasingly significant role of SMEs in their own national economies, SMEs are generally underrepresented in world trade.¹² Based on current estimates using national definitions of SMEs, 3.9 percent of U.S. SMEs¹³ and 4 percent of Australian SMEs export goods,¹⁴ while 8 percent of Canadian SMEs export goods or services.¹⁵ On average, 8 percent of SMEs in the 27 members of the EU are involved in exports of goods or services—ranging from highs of 23 percent of the SMEs in Estonia, followed by 21 percent in Slovenia and 19 percent in Finland, to lows of 6 percent of the SMEs in France, followed by 4 percent in Bulgaria and 3 percent in Spain and Cyprus.¹⁶

SME Exports as a Share of Total Exports

Based on the limited amount of available data, SMEs in the United States tend to account for a greater share of the value of total exports than SMEs in many (though not all) other countries. SMEs accounted for about 30 percent of the value of U.S. merchandise exports between 1997 and 2007.¹⁷ Various reports estimate that SMEs accounted for nearly 36 percent of total merchandise exports for Canada,¹⁸ 29 percent for Thailand, 18 percent for Indonesia, 17 percent for the Philippines, and 16 percent for Singapore.¹⁹ Data for 2001 (the most recent data available) show that Canadian SMEs had higher exports per firm than U.S. SMEs;²⁰ this likely reflected the relative strength of the U.S. domestic market vis-à-vis the Canadian domestic market—U.S. SMEs had less incentive to export, mostly because of growth opportunities in the domestic market during that period.²¹

Exports as a Share of SME Total Revenue

Exports tend to account for a relatively small share of firm revenue for SMEs that export. The OECD reported in 2008 that 58 percent of the SMEs in its survey received less than 20 percent of their total revenue from exports, while 12 percent of SMEs surveyed generated more than 80 percent of their revenue from exporting.²²

On average, exports accounted for 4.6 percent of revenue for SMEs in the EU in 2005; average firm revenue shares for SMEs ranged from highs of 15.2 percent in Belgium,

¹² OECD, *SME and Entrepreneurship Outlook, 2005*, 2005, 39.

¹³ USITC staff estimate, based on 232,146 U.S. SME exporters in 2006 and 6,004,036 U.S. SMEs in 2006. USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, 2010, 3-6, table C.2, and 2-2, table 2.1.

¹⁴ Data are for 2001. International Trade Centre, “Australia—Doubling SME Exporters,” 2002.

¹⁵ Data are for 2004. Orser, Riding, and Carrington, *Canadian SME Exporters*, 2008, 15.

¹⁶ Share of SMEs gaining any revenue from exports. Data are for 2006. Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 44.

¹⁷ USITC, *Small and Medium-sized Enterprises: Overview of Participation in U.S. Exports*, 2010, 3-1.

¹⁸ Data are for 2002. Government of Canada, Industry Canada, “Small Business Exporters: A Canadian Profile, Value of Exporters, Canada,” 2009.

¹⁹ Tambunan, “Facilitating Small and Medium Enterprises in International Trade,” 2009, 15, table 4.

²⁰ For Canada, exports per firm were C\$2.7 million (\$2.6 million) for small firms (0–99 employees) and C\$12.7 million (\$12.1 million) for medium-sized firms (100–499 employees). For the United States, exports per firm were C\$0.9 million (\$0.9 million) for small firms and C\$4.5 million (\$4.3 million) for medium-sized firms. Industry Canada, “Small Business Exporters: A Canadian Profile, Comparison with the United States,” August 18, 2009. Based on an exchange rate of US\$1.00 = C\$1.0479 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

²¹ Government of Canada, Industry Canada, “Comparison with the United States,” 2009.

²² OECD, *Removing Barriers to SME Access to International Markets*, 2008, table 1.8, 43.

11.9 percent in Estonia, 11.0 percent in Slovenia, and 9.7 percent in Iceland to lows of less than 3 percent of average firm revenue for Latvia, Cyprus, and Greece.²³ While Germany, Ireland, Norway, and the United Kingdom ranked above the EU-27 average based on the proportion of SMEs with any revenue from exports, these four countries ranked below the EU-27 average based on the share of exports in average firm revenue—suggesting that these countries had many SMEs exporting relatively low values of exports.²⁴ A study of Canadian SMEs reported that exports on average accounted for less than 25 percent of total firm revenue;²⁵ on the other hand, another study reported that one-third of Canadian SME exporters received at least 50 percent of their total revenue from exports.²⁶

Comparable data on export revenue at the firm level are not available for the United States. However, sources reported that on average, 13 percent of annual revenue of U.S. information technology SMEs was earned by exports²⁷ and that exports account for 20–30 percent of the annual revenue for 99 percent of all wine industry SMEs.²⁸

Destination of SME Exports

China and India—the fastest-growing developing-country markets—and the United States rank as the leading destination markets for SME exporters, based on an OECD survey of its members. After these three large markets, SMEs appear to target export markets based on geographical proximity or shared historic, linguistic, or cultural ties.²⁹

North American Free Trade Agreement (NAFTA) partners Canada and Mexico are the leading markets for U.S. SME goods exporters,³⁰ while Canada and the United Kingdom are the leading markets for U.S. SME service exporters.³¹ Canada and Mexico combined accounted for 33 percent of U.S. merchandise exports by SMEs in 2007, with exports to those two countries valued at \$70 billion (\$45 billion exported to Canada, and \$35 billion exported to Mexico).³²

Other top markets for U.S. SME merchandise exports in 2007 were China (SME exports valued at \$21 billion), Japan (\$18 billion), the United Kingdom (\$15 billion), Germany (\$12 billion), and South Korea (\$11 billion). An increasing number of U.S. SMEs are exporting to China, with the number of known U.S. SMEs that exported to China rising more than sevenfold, from 3,143 in 1992 to 25,949 in 2007. In 2007, SMEs accounted for more than one-third of all known U.S. merchandise exports to China. In one recent private sector survey focused on information technology, U.S. SMEs ranked China as the

²³ Data are for 2005. Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 45.

²⁴ *Ibid.*, 44–45.

²⁵ Data are for 2004. Orser, Riding, and Carrington, *Canadian SME Exporters*, 2008, 34.

²⁶ Data are for 2004. Government of Canada, Industry Canada, “Characteristics of Canadian SME Exporters,” 2008.

²⁷ CompTIA, “Small Business Issues.”

²⁸ USITC, hearing transcript, March 18, 2010, 81 (testimony of James Gore, Clawson International).

Views of U.S. SMEs on barriers to exports in the wine industry are described in more detail in chapter 4 of this report.

²⁹ OECD, *Removing Barriers to SME Access to International Markets*, 2008, 44–45.

³⁰ USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, 2010, 3-8, figure 3.5. The benefits to U.S. SMEs from increased export opportunities as a result of NAFTA are described in more detail in chapter 5 of this report.

³¹ USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, 2010, xi.

³² USDOC, ITA, “Small & Medium-Sized Exporting Companies: Statistical Overview, 2007,” n.d.

most important current export market and as the likely most important export market in five years.³³

Fifty-nine percent of U.S. SME exporters posted sales to only one foreign market in 2007, while 54 percent of large U.S. firms that exported recorded sales to five or more foreign markets in 2007; this led the U.S. Department of Commerce (USDOC) to conclude that many U.S. SMEs could sharply increase their exports by entering new markets.³⁴ However, the economic literature has extensively reported that the high fixed costs associated with entering new markets pose significant financial challenges for SMEs.³⁵ The views of U.S. SMEs on their exporting activities are discussed in greater detail in chapters 3 and 4 of this report.

Most Canadian exports, whether by large firms or small ones, are shipped to the United States, which is a natural trading partner for Canadians because of the long, shared U.S.-Canadian border. The United States was the destination of more than 85 percent of Canadian SME exports by value in 2002. The EU ranked as the second leading destination for all Canadian exporters, although Japan ranked as a more important export destination for Canadian SMEs.³⁶

Exporting to another EU country is a typical way EU SMEs begin as exporters.³⁷ According to a 2007 survey commissioned by the EC, two-thirds of EU SME exporters indicated that other EU countries were the primary destination of their exports, with 12 percent of firms surveyed indicating Germany as the primary destination of their exports, followed by France (10 percent), Spain and the Netherlands (6 percent each), and Italy (5 percent). A total of 14 percent of EU SME exporters reported that a European country outside the EU was the primary destination of their exports, while 7 percent exported primarily to Asia, 5 percent primarily to North America, 4 percent primarily to Africa, and 1 percent primarily to South America.³⁸

A Comparison of SME Exporting Activities in the United States relative to the European Union

This section presents a quantitatively based comparison of SME exporting behavior in the United States and the EU. It shows that:

- SMEs account for a smaller share of total manufacturing exports in the United States than in the EU;
- The exports/sales ratio for U.S. and EU SMEs appears to be similar;

³³ CompTIA, "Small and Medium Size Business Export Insights and Opportunities," 2010, 14.

³⁴ USDOC, ITA, "Small & Medium-Sized Exporting Companies: Statistical Overview, 2007," n.d.

³⁵ Bernard and Jensen, "Why Some Firms Export," April 1997, revised April 2001; Hutchinson, Quinn, and Alexander, "The Internationalization of Small to Medium-Sized Retail Companies," 2005, 149–179. See also USITC hearing transcript, March 12, 2010, 46 (testimony of Matt Nees, Software Association of Oregon).

³⁶ Halabisky, Lee, and Parsley, *Small Business Exporters: A Canadian Profile*, 2005, 22 and 23, table 7.

³⁷ EU industry representative, interview with USITC staff, April 8, 2010.

³⁸ Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 48. See also the country profile of Ireland later in this chapter.

- U.S. SME exporters are more likely to be wholesalers or other intermediaries than are EU SME exporters;
- Patterns of employment for manufacturers and wholesalers differ between each other, between the United States and the EU, and between SMEs and large firms;
- SMEs in the EU play a greater role in manufactured exports relative to the United States for almost all manufacturing industries.

Before presenting comparative estimates applicable to the above parameters, a brief description is provided of the methods used to compute these estimates.

Analytic Methods

The official U.S. data define SMEs as firms employing fewer than 500 workers, while the EU data define SMEs as firms employing fewer than 250 workers.³⁹ In order to compare the SME exporting activities in the United States with those of the SMEs in the EU, the Commission employed OECD data which provides comparable information for U.S. and EU SMEs, defining SMEs as firms employing fewer than 250 workers (see table 2.1).⁴⁰ The comparisons of SME exporting behavior in the United States and the EU were made by examining for their respective markets: (1) the total value of SME and large firm exports and their exports/sales ratio; (2) differences in SME and large firm exports by major industry (manufacturers, wholesalers, and other firms); (3) differences in the composition of SME and large firm manufactured exports by sector; (4) differences in the composition of SME and large firm employment for manufacturers and wholesalers, and (5) differences in SME and large firm labor productivity.

A detailed description of the methods used for this analysis is provided in appendix C. Some key points about the methods are as follows:

- U.S. exports are compared to EU exports outside of the EU.
- Data on exports by firm size are generated by a process of merging business and trade data. Unless otherwise stated, all comparisons presented here refer to the year 2005, the most recent year for which internationally comparable merged data are available.
- The OECD Trade by Enterprise Characteristics (TEC) database includes data for only 17 EU member countries (EU-17); therefore, the actual trade data

³⁹ For a detailed discussion of the U.S. definition of SME, see USITC, *Small and Medium-sized Enterprises: Overview of Participation in U.S. Exports*, 2010, 1-2.

⁴⁰ Trade data were provided by the OECD Trade by Enterprise Characteristics (TEC) database, made available by courtesy of the OECD to the Commission in a special pre-release version for the purposes of this study. To enable OECD-wide comparability, OECD reclassified EU data to UN classifications using standard tables as agreed upon by the OECD-Eurostat Steering Group on TEC. See appendix C of this report for additional information on data sources and methods.

comparisons in this section are for the EU-17 countries.⁴¹ However, in 2005 (the most recent year for which data were available), there were 25 EU member countries (EU-25).⁴² As a result, comparisons provided for EU-25 countries are based on Commission staff estimates of EU-25 (or EU-24⁴³) and are approximations.

- “SME” in this section only refers to firms with fewer than 250 employees. This is the definition used in the TEC database, which is consistent with the employment thresholds of the EU SME definition. In some cases, U.S. data for firms with fewer than 250 employees were estimated to facilitate direct comparisons.⁴⁴

Structural Differences between the United States and the European Union Explain Differences in SME Export Performance

SMEs play a less prominent role in both manufacturing and exports in the United States than in the EU. There is also a substantial difference between the role of SMEs in the United States and their role in the EU. In value terms, in 2005, exports by EU-17 manufacturing SMEs—nearly \$127 billion—were almost double U.S. manufacturing SME exports, valued at \$65 billion (table 2.2).⁴⁵ Among manufacturing firms, SMEs accounted for approximately 13 percent of U.S. exports and 19 percent of U.S. sales in 2005; in contrast, SMEs in the EU accounted for 34 percent of EU exports and 45 percent of EU sales in 2005 (table 2.2).⁴⁶ The structural differences between the U.S. and EU economies have long-standing historical antecedents which have led large firms to dominate the U.S. market and SMEs to dominate the EU market. Box 2.1 discusses some of the economic factors explaining the tendency of EU firms to be smaller than U.S. firms.

⁴¹ The EU-17 countries in the TEC database, in descending order of sales of manufactures in 2005, are France, Italy, Sweden, Poland, Austria, Finland, Czech Republic, Denmark, Hungary, Portugal, Slovakia, Slovenia, Luxembourg, Lithuania, Estonia, Latvia, and Cyprus. TEC data exclude some large members of the EU-25, including Germany, the United Kingdom, and Spain.

⁴² The EU-25 countries were Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. Bulgaria and Romania acceded to the EU in 2007 as the 26th and 27th EU members.

⁴³ See Appendix C for the method used to include the EU members not in the TEC database. The EU-24 countries are the EU-25 countries minus Malta.

⁴⁴ Sales data for U.S. firms with fewer than 250 employees are USITC staff estimates.

⁴⁵ EU data are for the EU-17 (actual data). Using Commission staff-estimated data for the EU-24, exports by EU-24 SMEs were valued at \$253 billion, with an estimated range of \$231–\$275 billion—almost four times the value of U.S. SME exports in 2005.

⁴⁶ EU data are for the EU-17 (actual data). Using Commission staff-estimated data for the EU-24 countries, SMEs accounted for almost 40 percent of EU-24 sales and 31 percent of EU-24 exports (table 2.2).

TABLE 2.2 Estimated exports and sales for manufacturing firms, by firm size, United States and European Union, 2005

| | United States | | EU-17 (observed) ^a | | EU-24 (estimated) ^b | |
|----------------------|---------------|---------|-------------------------------|---------|-------------------------------------|----------------------------------|
| | Billion \$ | Percent | Billion \$ | Percent | Billion \$ | Percent ^c |
| Exports | | | | | | |
| SMEs ^d | 65.0 | 12.7 | 126.8 | 34.1 | 252.9 (230.9–274.9) ^e | 31.2 |
| Large firms | 445.2 | 87.3 | 221.1 | 59.5 | 535.0 (497.6–572.3) ^e | 65.9 |
| Total | 510.1 | 100.0 | 371.6 | 100.0 | 811.5 (728.5–847.2) ^e | 100.0 |
| Sales | | | | | | |
| SMEs | 920.0 | 19.3 | 1,589.8 | 45.4 | 3,096.7 | 39.6 |
| Large firms | 3,839.8 | 80.7 | 1,914.8 | 54.6 | 4,727.6 | 60.4 |
| Total | 4,759.8 | 100.0 | 3,504.6 | 100.0 | 7,824.3 | 100.0 |
| Exports/sales | | | | | | |
| SMEs | | 7.1 | | 8.0 | | 8.2 (7.5–8.9) ^e |
| Large firms | | 11.6 | | 11.5 | | 11.3 (10.5–12.1) ^e |
| Total | | 10.7 | | 10.6 | | 10.4 (9.3–10.8) ^e |

Sources: OECD, TEC database, pre-release for USITC; SBA, *Statistics of U.S. Businesses*; Eurostat, Structural Business Statistics Database; USITC staff estimates. See appendix C for method and further details.

^a Austria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Slovak Republic, Slovenia, and Sweden.

^b Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

^c Some totals do not sum to 100 due to missing data on firm size.

^d SMEs are defined as firms with fewer than 250 employees.

^e Figures show estimated ranges.

Box 2.1 Why EU firms are so much smaller than U.S. firms

The structural features of the U.S. economy have been particularly well-suited for the development of large firms over time. Generally, the U.S. market is still more integrated relative to the EU market, given the common language and a willingness of residents, including immigrants, to adopt similar consumption patterns in different parts of the United States. In the late 19th and early 20th centuries, a series of technological and social changes led to U.S. predominance in goods produced by mass production and sold by large firms exploiting economies of scale.^a These included the “American system” of interchangeable parts, a nationally integrated system of commercial transport via road and railroad, national retailers such as Sears Roebuck, and the assembly line of Henry Ford. Expressions of European concern about the competitive advantages of large firms in the United States have been expressed repeatedly over time.^b

In comparison with the United States, the European market has historically been fragmented. Italy and Germany consisted of numerous micro-states separated by internal trade barriers until the mid-19th century; the unification of Germany for customs purposes was not completed until 1888. After the economic disruptions of the two World Wars, the present phase of European economic integration began in the 1950s. Regulatory union within the EU, often thought to have been achieved by 1993 due to the Single European Act, has in fact taken longer, as has the process of integrating 12 new EU members in Central and Eastern Europe which acceded to the EU between 2004 and 2007. As of 2010, the EU operates with 13 currencies and 23 official languages, despite the development of the euro zone. Although the pace of European integration has been rapid considering the associated institutional barriers, its economic integration is not yet comparable to that in the United States. This situation has likely limited the development of large firms in the EU, explaining the predominance of SMEs in the European market relative to the U.S. market.

^a Marshall, *Industry and Trade* (1919), 2009; Nelson and Wright, “The Rise and Fall of American Technological Leadership,” 1992, 1931–64.

^b Mackenzie, *The American Invaders* (1907), 1976; Servan-Schreiber, *The American Challenge*, 1968.

U.S. SME Exporters Are Relatively More Likely to Be Intermediaries

The role of non-manufacturing SMEs is greater for the United States than for the EU. Approximately 39 percent of U.S. SME exports are by manufacturers, compared to 51 percent of EU SME exports; in contrast, 41 percent of U.S. SME exports are by wholesalers, compared to 24 percent of EU SME exports (table 2.3).⁴⁷

Large-firm exports in both the United States and the EU are heavily dominated by manufacturers. Among large firms, wholesalers comprise a larger share of exports in the United States (accounting for 14 percent of exports by U.S. large firms, versus 2 percent of EU large-firm exports), whereas firms which are not identified as wholesalers or manufacturers were more important in the EU (accounting for 22 percent of exports by large EU firms, versus 9 percent of U.S. large-firm exports) (table 2.3).

In cases where manufactured goods are exported by wholesalers or other types of firms, it is not possible to directly observe the firm size of the manufacturer relative to the

⁴⁷ Almost 20 percent of U.S. SME exports were by other types of firms, compared to 25 percent for EU SMEs. Firm activities that are classified as “other” include agriculture, construction, energy, mining, transportation, retail trade, finance, real estate, and services.

TABLE 2.3 Estimated share of exports by firm size and major industry, 2005

| | United States Percent | EU-17 Percent ^a |
|--|--------------------------|-------------------------------|
| Share of SME exports through | | |
| Manufacturers | 39.2 | 51.4 |
| Wholesalers | 41.0 | 23.8 |
| Other | 19.8 | 24.8 |
| Share of large exports through | | |
| Manufacturers | 77.4 | 75.2 |
| Wholesalers | 13.8 | 2.3 |
| Other | 8.8 | 22.4 |
| Share of total exports through | | |
| Manufacturers | 68.4 | 65.3 |
| Wholesalers | 19.7 | 12.3 |
| Other | 11.8 | 22.4 |
| <hr/> | | |
| Manufactured goods exports as a share of all goods exports, all firm types ^b | 86.6 | 88.5 |
| Implied minimum share of manufactured good exports by non-manufacturing firms ^b | 20.9 | 26.2 |

Sources: OECD, TEC database, prerelease for USITC and USITC staff estimates. See appendix C for method and further details.

^a Some totals do not sum to 100 due to missing data on firm size.

^b Data are from GTIS, Global Trade Atlas Database and USITC staff estimates.

intermediary. For example, it is not known whether SME manufacturers use SME or large-firm wholesalers or other intermediaries.⁴⁸

In both the United States and the EU, a major portion of merchandise exports are manufactured goods. Manufactures accounted for almost 87 percent of U.S. merchandise exports and 89 percent of EU merchandise exports in 2005. These percentages exceed the corresponding percentages for exports by manufacturing firms, because some manufactured goods are exported by wholesalers or other nonmanufacturing firms. It can reasonably be inferred that, at a minimum, 21 percent of exports of manufactured goods in the United States and 26 percent in the EU are exported by non-manufacturing firms (table 2.3).⁴⁹

U.S. Export-Oriented Wholesale Firms Are Larger than EU Wholesale Firms

Another potentially important difference between the United States and the EU is that exporting wholesalers appear to be larger in the United States. In the United States, approximately \$79 billion (54 percent) of exports of wholesalers were by firms with at least 250 employees. In the EU, only about \$7 billion of exports by wholesalers were made by firms with at least 250 employees, accounting for approximately 10 percent of exports by wholesalers (table 2.4). This suggests that SME manufacturing firms in the

⁴⁸ USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, 2010, 3-3.

⁴⁹ This assumes that all exports by manufacturing firms are in fact manufactured goods. But since a small portion of exports by manufacturing firms are nonmanufactured goods (agricultural, mining, or extractive products), these estimates can only be close lower bounds.

TABLE 2.4 Estimated exports by firm size and major industry, 2005

| | United States | | EU-17 | |
|---------------------|---------------|---------|------------|----------------------|
| | Billion \$ | Percent | Billion \$ | Percent ^a |
| Exports | | | | |
| Total manufacturers | 510.1 | | 371.6 | |
| SME ^b | 65.0 | 12.7 | 126.8 | 34.1 |
| Large | 445.2 | 87.3 | 221.2 | 59.5 |
| Total wholesalers | 147.2 | | 70.0 | |
| SME ^b | 68.0 | 46.2 | 58.6 | 83.7 |
| Large | 79.2 | 53.8 | 6.9 | 9.9 |
| Total other | 88.1 | | 127.2 | |
| SME ^b | 32.8 | 37.2 | 61.3 | 48.2 |
| Large | 50.8 | 57.7 | 65.9 | 51.8 |
| Total, all firms | 745.4 | | 568.8 | |
| SME ^b | 165.8 | 22.2 | 246.7 | 43.4 |
| Large | 575.2 | 77.2 | 294.0 | 51.7 |

Sources: OECD, TEC database, prerelease for USITC and USITC staff estimates. See appendix C for method and further details.

^a Some totals do not sum to 100 due to missing data on firm size.

^b SMEs are defined as firms with fewer than 250 employees.

United States may benefit from the export services of large wholesalers to a greater extent than do EU SMEs.

U.S. and EU Employment Growth for Manufacturing during 2002–06 Was Better for SMEs than for Large Firms

Exporting and nonexporting SMEs in the EU accounted for larger shares of employment in manufacturing and wholesale trade than in the United States, which is consistent with the predominance of SMEs over large firms in the EU. In 2006, SMEs in the EU represented 57 percent of manufacturing employment and 82 percent of wholesale trade employment, compared with 37 of manufacturing employment and 56 percent of wholesale trade employment in the United States (table 2.5).

From 2002 to 2006, overall employment increased by 6.7 percent in the United States and by 5.2 percent in the EU. U.S. employment by SMEs in all sectors grew by 34.3 percent, while employment by large firms in the United States declined by 15.3 percent over the period (table 2.5).⁵⁰

The picture for manufacturing employment in the United States was quite different from that in the EU. Total U.S. manufacturing employment declined by 5.3 percent from 2002 to 2006. Large firms experienced the greater setback, with employment declining by more than 7 percent, compared to a 1 percent decline for SMEs. During the same period,

⁵⁰ Comparable data for the EU are not available.

TABLE 2.5 Employment growth, by firm size, United States and European Union, 2002-2006

| | 2002 | | | 2006 | | | 2002-06 | | |
|------------------------------|-----------------------|------------------|-----------------------|-----------------------|------------------|-----------------------|---------------------|-----------------------|-------|
| | SMEs ^a | | Total | SMEs | | Total | SMEs | | Total |
| | Millions of employees | Large | Millions of employees | Millions of employees | Large | Millions of employees | SMEs share of total | % change ^b | Total |
| United States | | | | | | | | | |
| Manufacturing | 5.1 | 9.3 | 14.4 | 5.0 | 8.6 | 13.6 | 36.6 | -1.2 | -5.3 |
| Wholesale trade | 3.3 | 2.6 | 5.9 | 4.2 | 3.3 | 7.5 | 55.6 | 26.2 | 28.1 |
| All sectors | 49.9 | 62.6 | 112.4 | 66.9 | 53.0 | 119.9 | 55.8 | 34.3 | 6.7 |
| European Union | | | | | | | | | |
| Manufacturing ^c | 17.0 | 13.9 | 31.0 | 18.4 | 13.9 | 32.3 | 57.0 | 8.2 | 4.3 |
| Wholesale trade ^d | 6.4 | 1.3 | 7.7 | 8.0 | 1.8 | 9.8 | 82.1 | 25.1 | 26.6 |
| All sectors | (^e) | (^e) | 204.3 | (^e) | (^e) | 214.9 | (^e) | (^e) | 5.2 |

Sources: SBA, *Statistics of U.S. Businesses*; Eurostat, *Structural Business Statistics Database*; USITC staff calculations. See appendix C for method and further details.

^a SMEs are defined as firms with fewer than 250 employees.

^b Data for percentage changes in the European Union are based on country with available data for both 2002 and 2006, and thus do not correspond to the employment figures in millions.

^c 2002 figures based on employment data for the EU-27, less data for Belgium, Cyprus, Greece, Luxembourg and Poland. 2006 figures are for the EU-27, less data for Malta.

^d 2002 figures are for the EU-27, less data for Bulgaria, Estonia, Finland, Luxembourg, Malta, and Slovakia. 2006 figures are for the EU-27, less data for Bulgaria, Estonia, Finland, Luxembourg, Malta, and Slovakia.

^e Data for employment in all sectors disaggregated by firm size are not available for the European Union.

however, total manufacturing employment in the EU increased by 4.3 percent; employment by EU SMEs expanded by 8.2 percent, compared to a slight decline in employment by large firms (table 2.5).

Employment growth in the wholesale trade sector outpaced manufacturing sector employment growth for both U.S. and EU SMEs. Wholesale sector employment grew by 28 percent in the U.S. economy overall, and by 26 percent for U.S. SMEs. Wholesale sector employment grew by 27 percent in the EU, and by 25 percent for EU SMEs (table 2.5). These data suggest that the expanding sector of wholesale trade played a greater role in generating employment in both the United States and the EU during this period than did manufacturing.

U.S. SME Exports Share Is Lower in Nearly Every Sector

For most manufacturing sectors, SMEs made up a smaller share of sector exports in the United States than in the EU. The average share of exports by SMEs was 12 percent for the United States and 34 percent for the EU (table 2.6, last panel). In 18 of the 22 sectors reported in table 2.6, the SME share of total exports was higher for the EU than for the United States.

Some of the more capital-intensive sectors had the lowest SME shares in both the United States and EU—including motor vehicles, tobacco products, and paper and paper products. For the United States, the sectors of machinery and equipment not elsewhere classified (n.e.c.), other nonmetallic mineral products, and rubber and plastics products had SME export shares of or below 10 percent. For the EU, the sectors of radio, TV, and communication equipment, other transport equipment, and coke and refined petroleum products also had relatively low SME export shares of below 20 percent (table 2.6).

The United States broadly appears to have exported more from industries with low SME export shares, while the EU exported slightly more from industries with high SME export shares. Thus, table 2.6 shows:

- Industries with low SME export shares in both the United States and EU (paper and paper products, tobacco products, and motor vehicles) recorded \$70.7 billion in total exports in the United States in 2005, compared to \$44.4 billion in the EU.
- Industries with high SME export shares in both the United States and EU (wearing apparel, wood products, and furniture manufacturing) recorded \$28.2 billion in total exports in the EU in 2005, compared to \$10.3 billion in the United States.

TABLE 2.6 Estimated exports for manufacturing sectors, by firm size, United States and European Union, 2005

| Sector | Firm type | United States | | EU 17 | |
|--|-------------------|----------------|-------------------|----------------|-------------------|
| | | Billions of \$ | % of sector total | Billions of \$ | % of sector total |
| Basic metals | SMEs ^a | 2.6 | 16 | 4.5 | 23 |
| | Large firms | 13.6 | 84 | 14.6 | 76 |
| | Total | 16.2 | 100 | 19.3 | 100 |
| Chemicals and chemical products | SMEs | 8.3 | 12 | 16.4 | 35 |
| | Large firms | 62.3 | 88 | 30.9 | 66 |
| | Total | 70.6 | 100 | 47 | 100 |
| Coke, refined petroleum products and nuclear fuel | SMEs | 1.4 | 60 | 0.7 | 6 |
| | Large firms | 0.9 | 40 | 9.4 | 82 |
| | Total | 2.3 | 100 | 11.4 | 100 |
| Electrical machinery and apparatus | SMEs | 3 | 27 | 5 | 30 |
| | Large firms | 8 | 73 | 11.4 | 69 |
| | Total | 11 | 100 | 16.5 | 100 |
| Food products and beverages | SMEs | 2.9 | 14 | 8.1 | 40 |
| | Large firms | 18.5 | 86 | 11.2 | 56 |
| | Total | 21.5 | 100 | 20.2 | 100 |
| Furniture manufacturing | SMEs | 0.9 | 45 | 8.1 | 64 |
| | Large firms | 1.1 | 55 | 4.3 | 34 |
| | Total | 1.9 | 100 | 12.7 | 100 |
| Machinery and equipment n.e.c. | SMEs | 9.5 | 10 | 27.2 | 44 |
| | Large firms | 90.1 | 90 | 35 | 56 |
| | Total | 99.7 | 100 | 62.4 | 100 |
| Medical, precision and optical instruments | SMEs | 4.3 | 13 | 5.5 | 40 |
| | Large firms | 28.7 | 87 | 8.1 | 60 |
| | Total | 33 | 100 | 13.6 | 100 |
| Metal products, exc. machinery and equipment | SMEs | 5 | 24 | 9.4 | 63 |
| | Large firms | 16 | 76 | 5.4 | 37 |
| | Total | 21 | 100 | 14.8 | 100 |
| Motor vehicles, trailers and semi-trailers | SMEs | 0.7 | 1 | 2.6 | 8 |
| | Large firms | 52.2 | 99 | 20 | 59 |
| | Total | 52.9 | 100 | 33.6 | 100 |
| Office, accounting and computing machinery | SMEs | 1.9 | 14 | 0.7 | 21 |
| | Large firms | 11.8 | 86 | 2.3 | 71 |
| | Total | 13.6 | 100 | 3.2 | 100 |
| Other nonmetallic mineral products | SMEs | 1.7 | 9 | 3.8 | 40 |
| | Large firms | 17.4 | 91 | 5.8 | 60 |
| | Total | 19.1 | 100 | 9.6 | 100 |
| Other transport equipment | SMEs | 1.9 | 32 | 2.2 | 9 |
| | Large firms | 4.2 | 68 | 22.4 | 88 |
| | Total | 6.1 | 100 | 25.5 | 100 |
| Paper and paper products | SMEs | 0.8 | 5 | 1.9 | 18 |
| | Large firms | 16.2 | 95 | 8.6 | 81 |
| | Total | 17 | 100 | 10.6 | 100 |
| Publishing, printing and reprod. of recorded media | SMEs | 0.5 | 24 | 1 | 58 |
| | Large firms | 1.7 | 76 | 0.6 | 36 |
| | Total | 2.2 | 100 | 1.7 | 100 |
| Radio, TV and communication equipment | SMEs | 3 | 41 | 3 | 13 |
| | Large firms | 4.2 | 59 | 12.8 | 55 |
| | Total | 7.2 | 100 | 23.2 | 100 |
| Rubber and plastics products | SMEs | 3.3 | 8 | 5.5 | 49 |
| | Large firms | 39.6 | 92 | 5.3 | 48 |
| | Total | 42.9 | 100 | 11 | 100 |

TABLE 2.6 Estimated exports for manufacturing sectors, by firm size, United States and European Union, 2005—*Continued*

| Sector | Firm type | United States | | EU 17 | |
|---|-------------|----------------|-------------------|----------------|-------------------|
| | | Billions of \$ | % of sector total | Billions of \$ | % of sector total |
| Tanning and dressing of leather | SMEs | 1.9 | 11 | 6.1 | 68 |
| | Large firms | 15.1 | 89 | 2.7 | 30 |
| | Total | 17.1 | 100 | 9 | 100 |
| Textiles | SMEs | 4.7 | 11 | 5.9 | 61 |
| | Large firms | 38 | 89 | 3.5 | 36 |
| | Total | 42.6 | 100 | 9.7 | 100 |
| Tobacco products | SMEs | 0 | 4 | 0 | 1 |
| | Large firms | 0.8 | 94 | 0.1 | 68 |
| | Total | 0.8 | 100 | 0.2 | 100 |
| Wearing apparel, dressing and dyeing of fur | SMEs | 2.9 | 47 | 5.5 | 59 |
| | Large firms | 3.2 | 53 | 3.7 | 40 |
| | Total | 6.2 | 100 | 9.3 | 100 |
| Wood, products of wood and Cork, except furniture | SMEs | 0.9 | 40 | 3.2 | 51 |
| | Large firms | 1.3 | 60 | 3 | 48 |
| | Total | 2.2 | 100 | 6.2 | 100 |
| All manufactured goods (Total) | SMEs | 62.1 | 12 | 126.4 | 34 |
| | Large firms | 445.1 | 88 | 221.2 | 60 |
| | Total | 507.3 | 100 | 370.9 | 100 |

Source: OECD, Trade by Enterprise Characteristics database (TEC), prerelease for USITC; Comtrade; USITC staff calculations. See appendix C for method and further details.

^a SMEs are defined as firms with fewer than 250 employees.

These data suggest that the greater export intensity of EU SMEs relative to U.S. SMEs might be, in part, related to a difference in U.S. and EU industry composition.

In the EU, SMEs accounted for more than 50 percent of exports in seven manufacturing sectors.⁵¹ Three of these sectors also accounted for the highest SME export shares in the United States,⁵² but because of the lower SME presence, in general this corresponded to SME export shares in the range of 40–48 percent. In both regions, exports of wearing apparel products had relatively high SME shares. The other top industries for SME exports in the United States and the EU were wood products and furniture manufacturing. Exports of leather manufactures were dominated by SMEs in the EU (export share of 68 percent) but not in the United States, where the SME export share was just 11 percent. The role of leather products such as shoes in Italy, Europe's largest country for SME exports, is particularly interesting, and has historically featured dynamic clusters of SMEs in local industrial districts. A case study of the Italian footwear and leather industry is provided in appendix C.

⁵¹ Those seven sectors were furniture manufacturing; metal products; publishing, printing, and reproduction of recorded media; leather products; textiles; wearing apparel; and wood products.

⁵² Those three sectors were furniture manufacturing, wearing apparel, and wood products.

SME Productivity Is as High in the United States as in the European Union—or Higher

Firms in the United States have higher labor productivity than their European counterparts, with the exception of purchasing power parity (PPP)-adjusted productivity of SMEs in the manufacturing sector.⁵³ Table 2.7 reports two versions of relative labor productivity between firms in the United States and EU in 2002, one using the nominal exchange rate and the other adjusted for PPP. Both versions define labor productivity as sales per worker and are not limited to exporting companies.⁵⁴

The productivity lead that U.S. firms have over European firms is greatest when comparing productivity of all firms in a sector, and is greater for large firms than for SMEs. In all instances, U.S. firms engaged in wholesale trade have a greater productivity lead over their European counterparts than U.S. manufacturing firms have relative to their European counterparts.

U.S. and EU Support for SME Exporting Activities

This section describes selected U.S. government and EC programs that promote SME exporting activities and highlights key differences between the programs.⁵⁵ This section begins with a discussion of the SME business environment in the United States and the EU, followed by a discussion of barriers to exporting experienced by SMEs in developed economies such as the United States and the EU countries. Next, key U.S. and EC export promotion programs are described. Finally, to provide a more complete description of EU support for SME exporting activities at the national level, the chapter concludes with case studies on France, Germany, Ireland, and Poland.

Information Sources

Information presented in this section is based on published information and documents posted on official U.S. government and EU Web sites. Additional information on U.S. programs was obtained from hearings held by the Commission in conjunction with this report and from interviews with U.S. government officials in Washington, DC. The Commission also collected information on EU programs from interviews with European government officials, industry associations, private sector representatives, and academics.

⁵³ The price correction using PPP takes into account the overall price level in the economy, which includes services. Using specific price corrections for manufacturing, or individual manufacturing sectors, may yield different results. The comparison is also sensitive to the choice of the year for comparison, since PPP exchange rates are influenced by the nominal exchange rate between the euro and the U.S. dollar.

⁵⁴ According to Bernard et al., exporting firms are more productive than non-exporters. In their study, exporters have 119 percent more employment, 148 percent higher shipments, and 26 percent higher value added per worker than do non-exporters. These differences are still significant after controlling for industry fixed effects and company size. Bernard et al., “Firms in International Trade,” 2007, 110.

⁵⁵ The private sector in the United States and in the EU countries also is actively engaged in supporting SME exporting activities through industry associations, chambers of commerce, and other activities. Examples of such private sector initiatives are described in more detail in chapters 3 and 4 of this report.

TABLE 2.7 Relative productivity by firm size, United States and European Union (European Union = 1), 2002

| | Relative productivity (2002 nominal exchange rate) | Relative productivity (adjusted for 2002 PPP) |
|-----------------------------------|---|--|
| Manufacturing (SMEs) ^a | 1.09 | 0.88 |
| Manufacturing (large firms) | 1.31 | 1.08 |
| Manufacturing (total) | 1.42 | 1.17 |
| Wholesale trade (SMEs) | 1.40 | 1.16 |
| Wholesale trade (large firms) | 2.01 | 1.66 |
| Wholesale trade (total) | 2.15 | 1.80 |

Sources: SBA, *Statistics of U.S. Businesses*; Eurostat, *Structural Business Statistics*; USITC staff calculations. PPP was calculated using data from the World Bank's World Development Indicators. See appendix C for method.

^a SMEs are defined as firms with fewer than 250 employees.

The information presented in this section is not intended to be either a comprehensive catalog of official U.S., EC, or EU member state programs or an evaluation of those programs, but rather is presented as a brief description of key U.S. and EU policies and programs intended to support SME exporting activities. The referenced sources should be consulted for more complete information.

SME Business Environment in the United States and the European Union

The United States has one of the most favorable business climates in the world and is generally ranked significantly higher than most EU member countries by the leading global indexes that compare business environments. In recent international comparisons:

- The United States ranked as the 2nd most globally competitive economy for 2009–10, with an overall score closely behind that of Switzerland.⁵⁶ The United States ranked particularly high in categories related to innovation (investment in research and development [R&D], the presence of high-quality scientific research institutions, collaboration in research between universities and industry, and the protection of intellectual property) and business sophistication (the quality of a country's overall business networks and the quality of individual firms' operations and strategies).⁵⁷
- The United States ranked 4th in the world in 2010 (behind Singapore, New Zealand, and Hong Kong) in terms of ease of doing business, based on an overall composite index. The United States ranked 10th with respect to ease of getting credit; the only EU countries ranking higher were the United Kingdom (ranked 3rd) and Bulgaria (ranked 5th). However, the United States ranked 18th in the category of ease of trading across borders, which measures procedural requirements for exporting and

⁵⁶ Switzerland's overall score was 5.60; the U.S. score was 5.59. World Economic Forum, *The Global Competitiveness Report, 2009–2010*, 2009, 14.

⁵⁷ World Economic Forum, *The Global Competitiveness Report, 2009–2010*, 2009, 321.

importing by ocean transport, behind EU members Estonia, Finland, Denmark, Sweden, Norway, the Netherlands, Germany, and the United Kingdom.⁵⁸

- The United States ranked 8th in the world in 2010 in terms of economic freedom, based on a composite index that included factors such as business freedom, trade freedom, investment freedom, financial freedom, and the protection of property rights. Ireland (ranked 5th) was the only EU country ranking higher than the United States on this index.⁵⁹

The EC has observed that European workers appear to have a less entrepreneurial focus than U.S. workers. “Europe needs more entrepreneurs. Unlike in the United States, however, this career path is rarely first choice for people in Europe.”⁶⁰ European entrepreneurship is encumbered relative to the situation in the United States because “[i]n Europe, there is a perceived lack of money, too much complexity and insufficient information and all three have increased.”⁶¹ According to one source, U.S. SMEs have a competitive edge because they “are able to react faster, due to a less regulated labor market” than in Europe, and U.S. manufacturing costs are generally lower; however, European firms have certain labor advantages with respect to overtime pay, greater availability of skilled lower management and technical staff, and better credit costs.⁶²

Moreover, even in areas where European firms are thought to have an advantage, such as greater ability to work with foreign languages, global factors may work to provide a more level playing field. According to one source, “even the European nations, whose citizens often speak three or four languages fluently, realize that they lack sufficient fluency in the languages of the rising world economies” such as China.⁶³ Testimony at USITC field investigations stated that while fluency in several languages is a competitive advantage for EU SMEs relative to their U.S. counterparts, the depth of technical language knowledge necessary for legal contract work, understanding government regulations, and prospecting export markets is nonetheless a barrier to EU SMEs relative to larger firms or firms that possess specialized staff.⁶⁴

⁵⁸ The U.S. ranking for ease of trading across borders seemed to be driven largely by import costs. With respect to exporting, the United States ranked only slightly above the OECD average for number of documents needed to export, below the OECD average for export costs per container, and significantly below the OECD average for number of days required to export. World Bank. *Doing Business 2010*, 2009, 33 and 160. See also the World Bank “Economy Rankings,” 2010.

⁵⁹ Heritage Foundation, “2010 Index of Economic Freedom: Finland,” January 20, 2010, 195, <http://www.heritage.org/index/Country/Finland>.

⁶⁰ EC, Directorate-General for Enterprise and Industry, *Putting Small Business First: Europe Is Good for SMEs*, 2008, 17. Another EC source reported that European workers have a greater preference for being employees, while U.S. workers report a greater preference for being self-employed. Gallup, *Entrepreneurship Survey of the EU (25 Member States): Analytical Report*, April 2007, 9.

⁶¹ Gallup, *Entrepreneurship Survey of the EU: Analytical Report*, April 2007, 100.

⁶² Bieri, prehearing brief for the USITC, February 9, 2010, 2.

⁶³ USITC hearing transcript, March 18, 2010, 62 (testimony of Spencer Ross, National Institute for World Trade).

⁶⁴ Polish industry association representative, interview with USITC staff, April 7, 2010; German government official, interview with USITC staff, April 7, 2010; EU private sector official, interview with USITC staff, April 7, 2010.

Barriers to SME Exporting Activities

The world over, SMEs face similar resource constraints that affect their ability to export. Fixed costs, such as the costs of exploring and testing new markets, R&D, product localization, compliance with foreign technical standards, and transportation and other costs, can have a significant impact on the limited financial resources of small firms.⁶⁵ As a result of these financial constraints, SMEs are often unable to hire personnel with skills in specialized domains, such as law, foreign languages, trade finance, and trade compliance. Small firms, particularly recently established ones, encounter greater difficulties obtaining bank credit than larger and longer-established companies. These financial constraints were exacerbated by the 2008–09 global recession, as discussed in more detail in box 2.2. Small firms generally are small producers; with their limited output, SMEs often report that they are at a disadvantage in competitively pricing their products.⁶⁶ At the same time, small firms are often reported to be more nimble in responding to shifting customer preferences.⁶⁷

Numerous country-specific studies have identified and ranked barriers to exporting by SMEs as a first step toward creating effective policies to support SME internationalization. In its 2008 report, based on a survey of its members, the OECD found that the four top barriers to SME access to international markets were:

- shortage of capital to finance exports;
- problems identifying foreign business opportunities;
- limited information to locate and analyze markets; and
- inability to contact potential foreign customers.⁶⁸

In its 2009 report, the OECD further analyzed these top four barriers and added a fifth one: lack of managerial time, skills, and knowledge.⁶⁹ The OECD concluded that “the continuing salience of the previously identified top barriers to SME internationalization challenges policymakers and executors to intensify ongoing efforts at removing these resilient barriers, specifically limitations in finance and related resources, international contacts, and relevant managerial knowledge.”⁷⁰

⁶⁵ For example, see Dejo-Oricain and Ramírez-Alesón, “Export Behavior: A Study of Spanish SMEs,” 2009.

⁶⁶ A study of SME exporters in Western Australia found that, given the absence of scale economies, many SMEs turned to combinations of premium pricing, niche marketing, product differentiation, customization, and innovation to become successful exporters. Western Australian technology and Industry Advisory Council, *A Snapshot of Exporting Activity in Western Australia’s SME Sector*, 2006.

⁶⁷ Freund and Pierola, “Export Entrepreneurs: Evidence from Peru,” 2009. See the literature review in appendix E of this report. See also Bernard and Jensen, “Why Some Firms Export,” April 1997, revised April 2001.

⁶⁸ OECD, *Removing Barriers to SME Access to International Markets*, 2008, 47, figure 1.9.

⁶⁹ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 7.

⁷⁰ *Ibid.*, 8.

Box 2.2 The 2008–09 global recession and its effects on financing in developed countries

The recent global recession has been the deepest economic contraction since the 1930s. Nearly every major developed country experienced an economic downturn beginning in the first half of 2008, although for most countries, real GDP growth had resumed by the second half of 2009. Trade was particularly hard hit by the recession—the developed economies’ annual output shrank by about 3 percent in 2009, but their annual exports fell by more than 12 percent.^a The magnified effect on trade was due to a combination of factors, including large demand declines in heavily traded sectors and reduced demand for intermediate inputs. To a smaller extent, trade also fell because of the reduced availability of trade financing.

Impact on financial markets. Global financial markets declined along with declines in real output. Lower production of goods reduced the demand for corporate financing; in addition, lower availability of financing reduced companies’ ability to produce. The September 2008 collapse of Lehman Brothers provoked a global credit market freeze, further reducing the availability of financing while driving the cost of obtaining funds markedly higher. The crisis negatively affected every type of financing that companies use to fund their domestic production and international trade. Companies get financing in many ways, such as by issuing bonds or equity, obtaining bank loans, or self-financing through retained earnings. All of these channels were undermined by the crisis: interest rates on bonds and loans rose, while equity prices and profits (and hence retained earnings) fell.^b

Decline in availability of trade financing. Exporters (particularly SME exporters) rely on banks to provide working capital financing while goods are in transit, while importers often use banks to guarantee payment for items that are shipped. Lack of access to trade financing can reduce trade and worsen economic downturns. The financial crisis decreased the supply of available trade financing and increased the perceived risks associated with international transactions. The availability of trade financing declined and financing credit standards tightened for firms worldwide.^c Between the second quarter of 2008 and the same quarter of 2009, the supply of trade credit fell 22 percent and the use of trade financing fell by 12 percent.^d To counter this trend, policymakers supplied over \$250 billion in additional trade financing during the recession through national governments, multilateral development banks, and export credit agencies.^e

Impact on SMEs. Although all types of firms were harmed by the downturn, SMEs have been particularly vulnerable because of their more limited access to funds. Larger companies obtain much of their financing in equity and bond markets—sources that smaller firms largely cannot access. Banks are the main source of external finance for SMEs.^f During the downturn, bank loans for smaller U.S. companies have been harder to obtain and more costly than loans for larger firms, despite the greater importance of such financing for small firms.^g Internal funds are also a “critical” source of financing for SMEs.^h With sharply reduced (or negative) profits, however, many companies have had limited ability to self-finance their operations. Finally, credit cards are an increasingly important source of funds for U.S. SMEs, and personal credit cards are the most common source of funds for the smallest U.S. businesses. Because household wealth has declined in the downturn, the ability of many small business owners to borrow has likely been impaired, and credit card loans have also been increasingly hard to obtain throughout the period.ⁱ

^a IMF, “World Economic Outlook Update,” 2010, table 1.1.

^b Guichard, Haugh, and Turner, “Quantifying the Effect of Financial Conditions,” 2009, 27.

^c Mora and Powers, “Did Trade Credit Problems Deepen the Great Trade Collapse?” 2009.

^d The change in supply and use do not match because the data are not comprehensive. Supply is measured by issuance of export credit insurance (short run). Use is measured by gross external debt, trade credits (short term, other sectors). The data are reported by countries through the World Bank’s JEDH database.

^e Auboin, “Restoring Trade Finance during a Period of Financial Crisis,” 2009, 2.

^f Ou and Williams, “Lending to Small Businesses,” 2009, 26.

^g Japan has similarly reported a greater tightening of lending standards to small firms than to large firms, but the EU has not reported this pattern. See Federal Reserve, “Senior Loan Officer Opinion Survey,” 2010, table 2; ECB, “Euro Area Bank Lending Survey,” 2010, charts 1 and 6; and Bank of Japan, 2010, “Tankan,” tables i and j.

^h Haynes and Brown, “How Strong Is the Link between Internal Finance and Small Firm Growth?” 2009, 1.

ⁱ Federal Reserve, “Senior Loan Officer Opinion Survey,” 2010, figure 4; Federal Reserve Governor Elizabeth Duke, Testimony to the House Committee on Financial Services, February 26, 2010.

Export Promotion for SMEs

In light of the identified barriers to SME exporting activities, the governments of most industrialized countries have programs to promote SME exports by providing export finance assistance, foreign market information, and a variety of business support services, such as export counseling, business-to-business matchmaking, advocating on behalf of firms, and advising firms on how best to market their products in foreign markets.⁷¹ Countries provide export promotion assistance both domestically and abroad through their networks of foreign embassies and industry association outposts.⁷²

The economic arguments made to justify government involvement in export promotion typically cite the need to address asymmetries of information or other market failures, because most small firms see the fixed costs of becoming an exporter as too high without some form of public support.⁷³ For example, a discussion of export promotion by the U.S. Government Accountability Office (GAO) says:

In addition to macroeconomic considerations of job creation and economic growth, microeconomic considerations exist for government programs to address “market failures”—where conditions such as imperfect information and entry barriers prevent markets from generating the most efficient outcome. Rationales may also exist for export programs based on achieving broader trade policy objectives, such as helping U.S. exporters overcome foreign trade barriers that make it difficult for U.S. products to penetrate foreign markets.⁷⁴

Some studies have shown that “SMEs are likely to benefit disproportionately from the pro-competitive effects of internationalization.”⁷⁵ However, one source reported that there is limited empirical research as to whether foreign trade promotion helps SMEs overcome trade barriers.⁷⁶

Export promotion programs vary widely from country to country. The OECD reported that most of its member countries provide programs to address financial barriers to SME exporting activities through such measures as export credit guarantees, pre-shipment financing, and facilities to augment working capital, and that these programs largely comply with OECD voluntary standards (see box 2.3).⁷⁷ Many OECD members also

⁷¹ For additional information, see GAO, *International Trade: Observations on U.S. and Foreign Countries' Export Promotion Activities*, 2009, 3–4.

⁷² The existence of government-supported trade promotion agencies dates to 1919. EC, Directorate-General for Enterprise and Industry, *Supporting the Internationalisation of SMEs: Good Practice Selection*, 2008, 7.

⁷³ USITC hearing transcript, March 18, 2010, 17 (testimony of the Honorable Donald A. Manzullo, U.S. Representative, 16th District, IL). See also Lederman, Olareaga, and Payton, “Export Promotion Agencies: What Works and What Doesn’t,” 2006, 2; EC, Directorate-General for Enterprise and Industry, *Supporting the Internationalization of SMEs: Good Practice Selection*, 2008, 7; and OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 15.

⁷⁴ GAO, *International Trade: Observations on U.S. and Foreign Countries' Export Promotion Activities*, 2009, 3.

⁷⁵ EC, Directorate-General for Enterprise and Industry, *Supporting the Internationalisation of SMEs*, 2007, 17.

⁷⁶ Hauser and Werner, “The Impact of Foreign Trade Promotion on the Foreign Sales Intensity of SMEs,” 2009, 5.

⁷⁷ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 15–16.

BOX 2.3 OECD standards for export credits

An export credit is a loan or other financing arrangement extended to finance a specific purchase of goods or services from within the creditor country. The OECD further defines export credits as any combination of (1) export credit guarantee or insurance (i.e., an export credit that carries a guarantee or insurance issued by an export credit agency protecting the creditor against political, commercial, or transfer risks in the debtor country that may prevent the remittance of debt-service payments—so-called “pure cover”) or (2) official financing support including direct credit and/or financing and refinancing, or interest rate support (where the government supports a fixed interest-rate for the life of the credit).^a

Both the United States and the EU are signatories to the OECD “Arrangement on Guidelines for Officially Supported Export Credits” (OECD Arrangement). According to the OECD, the main purpose of the Arrangement “is to provide a framework for the orderly use of officially supported export credits” provided by or on the behalf of a government through providing for “a level playing field . . . whereby exporters compete on the basis of the price and quality of their products rather than the financial terms provided . . . and reducing subsidies and trade distortions related to officially supported export credits.”^b The OECD Arrangement sets out limitations on terms and conditions that may be officially supported. Among other things, the Arrangement places limits on the conditions (interest rates, term to maturity, down payment required, repayment schedule), under which credits may be granted. The OECD Arrangement is often referred to as a “Gentleman’s Agreement” that is open to OECD members, but participation in it is voluntary.^c

China, India, and Brazil are not OECD members and are not signatories to the OECD Agreement. According to a U.S. Export-Import Bank official, “there are again times when sadly we will see a deal slip away because of concessional financing offered or other measures that sadly do not allow U.S. companies to be as competitive as companies from some of the nations who are just not governed under the OECD rules.”^d

^a OECD, “Officially-Supported Exporter Credits and Small Exporters,” 5–6.

^b OECD, *Arrangement on Officially-Supported Export Credits*, 2010.

^c *Ibid.*

^d USITC hearing transcript, March 18, 2010, 31 (testimony of Diane Farrell, Export-Import Bank of the United States).

provide support programs to help SMEs identify foreign business opportunities, locate or analyze markets, and contact potential foreign customers and partners.⁷⁸ In conjunction with export promotion, some governments also work to reduce procedural and bureaucratic obstacles to exporting or seek other ways to simplify the exporting process and facilitate trade.⁷⁹ The OECD identified several countries that offered export-focused programs to improve SMEs’ managerial skills and knowledge, including programs at the national level and below.⁸⁰ The OECD also observed that there is “an increasing tendency to take a sub-national approach to promoting SME internationalization” in several countries, including the United States and the EU member countries.⁸¹ USITC field investigations have confirmed this for the EU, and observed that EU and national SME support mechanisms are often administered at the subnational level.⁸²

Despite the apparent proliferation of government support programs for SME exporting activities, the OECD also noted that there are “persisting low user-level perceptions of

⁷⁸ *Ibid.*, 18.

⁷⁹ Laird, “WTO Rules and Good Practice on Export Policy,” 1997, 17–19.

⁸⁰ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 20–21.

⁸¹ *Ibid.*, 22.

⁸² Polish government official, interview with USITC staff, April 6, 2010; German academic official, interview with USITC staff, April 7, 2010.

the effectiveness of public sector support programs.”⁸³ These could be the result of several factors, including inadequate input from program users, inadequate levels of awareness of specific programs among the target user communities and other stakeholders, and low-quality implementation and delivery of program services.⁸⁴ One study found that “both exporters and non-exporters reported a lack of awareness of available export assistance programs.”⁸⁵ Another study found that although export promotion programs on average have a positive and statistically significant impact on a country’s exports, there were “important decreasing returns to scale in resources devoted to export promotion, and even negative marginal returns for budgets above a certain level.”⁸⁶

U.S. Support for SME Exporting Activities

National Policies and Programs Supporting SME Exporting Activities

The U.S. government supports SME exporting activities through several agencies and programs. To support U.S. firms doing business in foreign countries, as well as gather data and information about these local markets, the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA) has 101 offices in 81 countries, and the U.S. Commercial Service a part of the USDOC, has 126 offices in more than 80 countries. In addition, U.S. Department of State personnel provide in-country services at approximately 100 embassies overseas where either the USDA or the USDOC lacks a presence.⁸⁷ Key institutions involved in providing financial support for exporting activities include the Export-Import Bank of the United States (Ex-Im Bank), the Overseas Private Investment Insurance Corporation (OPIC), and the U.S. Small Business Administration (SBA). Information on these and other institutions is provided in appendix table C.1.

The U.S. government supports exporting activities by U.S. SMEs through three basic types of financial assistance:

- *Financing (including loans, lease financing, and loan guarantees).* The U.S. government offers financing for exporting activities in four categories: export development and working capital financing; facilities development financing; financing for international buyers; and investment project financing.⁸⁸
- *Insurance.* The U.S. government provides U.S. companies with insurance and risk mitigation policies that cover export transactions and overseas investments.

⁸³ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 30. See also EC, Directorate-General for Enterprise and Industry, *Supporting the Internationalisation of SMEs*, 2007, 19.

⁸⁴ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 30.

⁸⁵ Moini, “Small Firms Exporting: How Effective Are Government Export Assistance Programs?” 1998, 12.

⁸⁶ Lederman, Olareaga, and Payton, “Export Promotion Agencies: What Works and What Doesn’t,” 2006, 3.

⁸⁷ GAO, *International Trade: Observations on U.S. and Foreign Countries’ Export Promotion Activities*, 2009, 4.

⁸⁸ USDOC, “U.S. Government International Financing Programs.”

Coverage includes losses from nonpayment, currency inconvertibility, asset expropriation, and political violence.⁸⁹

- *Grants.* The U.S. government provides funds to enable U.S. firms to conduct feasibility studies on infrastructure projects and to train the foreign business community and government officials on U.S. business practices, regulatory reforms, and other economic development activities.⁹⁰

The United States also supports SMEs' exporting activities through a range of export promotion programs. These non-financial assistance measures take the form of online and customized market research; support for U.S. exhibitors taking part in selected overseas and domestic trade shows to attract qualified business partners; fee-based programs to introduce exporters of U.S. products to qualified buyers and distributors; individualized counseling and advocacy; and training programs, as described in appendix table C.1.⁹¹

State and Local Programs Supporting SME Exporting Activities

In addition to federal government efforts, U.S. states and cities maintain their own domestic and foreign trade offices to support SME exporting activities. Services offered vary by state,⁹² but typically include some form of export counseling; market research; market entry strategy development; product and pricing information; searches for agents and distributors; foreign company background checks; foreign trade missions; trade shows; and training programs and seminars. State and local programs are more limited than those offered by USDOC, and states' trade offices often collaborate with the U.S. Commercial Service (USCS) to ensure that firms have access to all U.S. government export promotion services.⁹³ In addition to partnering with USCS, some states' trade offices also work closely with their local U.S. Export Assistance Centers (USEACs).⁹⁴

State programs are both fee-based and non-fee-based, although most states do not charge fees for most of the services they offer.⁹⁵ In addition, some states provide grants or payments to SMEs to help defray the costs of USCS fee-based export promotion services, such as attending international trade shows and trade missions, USCS Gold Key Service,⁹⁶ and export training.⁹⁷ In a recent U.S. government survey of state export

⁸⁹ USDOC, "International Finance," <http://www.export.gov/finance/index.asp> (accessed April 8, 2010).

⁹⁰ *Ibid.*

⁹¹ USDOC, *Export Programs Guide*, 2009, iii; USTR, "Export Assistance," April 6, 2010 <http://www.ustr.gov/trade-topics/trade-toolbox/export-assistance>.

⁹² USITC, hearing transcript, March 12, 2010, 16–17 (testimony of Tim McCabe, Oregon Business Development Department).

⁹³ GAO, *Export Promotion*, March 2009, 21 and 13.

⁹⁴ USEACs are a national network of USDOC, Ex-Im Bank, and SBA offices located in major metropolitan areas throughout the United States. See appendix table C.1 for additional information. GAO, *Export Promotion*, 2009, 13.

⁹⁵ *Ibid.*, 19.

⁹⁶ USCS Gold Key Service provides such services as customized market and industry briefings, customized market research, appointments with prospective trade partners, assistance in developing marketing strategies, help with travel, accommodations, and interpreter service. USDOC, USCS, "Gold Key Matching Service," http://www.export.gov/salesandmarketing/eg_main_018195.asp (accessed April 16, 2010).

⁹⁷ GAO, *Export Promotion*, 2009, 3 and 7; GAO, *International Trade: Observation*, 9–10.

promotion services, 19 of 45 states reported that they provided grants to SMEs to help defray the costs of USCS export promotion programs and services.⁹⁸

Some states are very actively engaged in export promotion. An official from Oregon stated that Oregon was recently the only state with its own exhibit at an annual food export show in Tokyo.⁹⁹ One recent U.S. government survey reported that each state has about 5 five foreign offices or representatives, on average.¹⁰⁰

National Export Initiative

On March 11, 2010, President Obama signed Executive Order 12870, the National Export Initiative (NEI). Among other things, the NEI established an Export Promotion Cabinet to develop programs to enhance export assistance to SMEs, including programs to improve information and other technical assistance to first-time exporters and assist current exporters in identifying new export opportunities.¹⁰¹ Key provisions of the NEI include:

- An increase in the Ex-Im Bank’s budget for fiscal year (FY) 2011 to help it expand the financing it makes available to SMEs.
- An increase in the USDA FY 2011 budget to enhance export promotion activities.
- An increase in the USDOC International Trade Administration’s FY 2011 budget, in order to expand the number of trade experts available to serve as advocates for U.S. companies; to put a special focus on increasing the number of SMEs exporting to more than one market by 50 percent over the next five years; to increase the presence of U.S. SMEs in emerging markets such as Brazil, China, and India; and to develop a comprehensive strategy to identify market opportunities for U.S. SMEs in fast-growing sectors such as environmental goods and services, renewable energy, health care, and biotechnology.¹⁰²

EU Support for SME Exporting Activities

The EU supports exporting activities by European SMEs through financial assistance—grants, loans, and loan guarantees—as well as through non-financial assistance measures in the form of business support programs and services. EU support for SME exporting activities is available either directly from EC institutions or through EC-funded programs managed by EU member states at the national, regional, or local level¹⁰³ to help member states “develop policies aimed at promoting entrepreneurship, improving the situation of

⁹⁸ GAO, *Export Promotion*, 2009, 3.

⁹⁹ USITC hearing transcript, March 12, 2010, 13 (testimony of Tim McCabe, Business Development Department of Oregon).

¹⁰⁰ GAO, *Export Promotion*, 2009, 22.

¹⁰¹ White House, “Executive Order: National Export Initiative,” March 11, 2010, <http://www.whitehouse.gov/the-press-office/executive-order-national-export-initiative>; 75 *Federal Register* 12433, March 16, 2010.

¹⁰² USDOC, “Commerce Secretary Gary Locke Unveils Details of the National Export Initiative,” press release, February 4, 2010.

¹⁰³ EC, Directorate-General for Enterprise and Industry, *European Union Support Programmes for SMEs*, November 2008; EC, Directorate-General for Enterprise and Industry, “Small and Medium-sized Enterprises (SMEs),” http://ec.europa.eu/enterprise/policies/sme/index_en.htm (accessed April 19, 2010).

SMEs throughout their life cycle, and helping them to access new markets.”¹⁰⁴ EC support for SME exporting activities is directed at all forms of cross-border trade—i.e., SMEs exporting to other EU countries (intra-EU exports) as well as SMEs exporting outside of the EU market (extra-EU exports). The EC has over 130 delegations and offices around the world that help gather data about local markets.¹⁰⁵ Key EC programs to support SME exporting activities are summarized in appendix table C.2.

In addition, the Enterprise Europe Network (EEN), partially funded by the EC and by European institutions at the national level, “comprises about 600 partners in 44 countries employing around 4,000 experienced staff helping to increase the competitiveness” of EU SMEs.¹⁰⁶ The EEN characterizes itself as “a one-stop shop for all . . . [SME] business needs.”¹⁰⁷ It helps European SMEs by arranging meetings with potential business partners; facilitating commercial access to technological research; facilitating access to business and research financing; providing advice on legal, trade, and intellectual property issues; and advocating on behalf of European SMEs in foreign markets.¹⁰⁸ However, sources contacted by the Commission stated that the EEN was minimally effective because it merely created an agency made up of existing organizations and agencies.¹⁰⁹

Individual EU member countries also maintain their own support programs for SMEs at the national and regional/local levels, some of which are funded or co-funded by the EC. EU member countries also provide officially supported export credits through private or government-supported export credit agencies. Most EU countries, however, have largely privatized the business of extending short-term credits.¹¹⁰ In addition to the EC’s delegations worldwide, EU countries maintain their own national embassies around the world that, among other things, support firms from those countries as well as gather data and information about local markets. Semiprivate and private national organizations, such as chambers of commerce and industry associations, also play a significant role in export promotion programs for some EU countries. Some German states have their own foreign commercial service branches as well. For example, the German states of Bavaria and North Rhine-Westphalia both have promotional offices outside of Germany.¹¹¹

Small Business Act for Europe

In addition to the financial and non-financial assistance it provides for SMEs, the EC has implemented a legal framework to support European SMEs. The EC adopted the Small

¹⁰⁴ EC, Directorate-General for Enterprise and Industry, “Small and Medium-Sized Enterprises (SMEs),”

¹⁰⁵ EC, “External Service.”

¹⁰⁶ EC, Directorate-General for Enterprise and Industry, “Enterprise Europe Network,” December 12, 2009.

¹⁰⁷ EC, Directorate-General for Enterprise and Industry, “Enterprise Europe Network: Our Mission,” <http://www.enterprise-europe-network.ec.europa.eu/about/mission> (accessed April 20, 2010).

¹⁰⁸ EC representative, interview with USITC staff, April 8, 2010; EC, Directorate-General for Enterprise and Industry, “Enterprise Europe Network: Our Services,” <http://www.enterprise-europe-network.ec.europa.eu/services/overview> (accessed April 19, 2010).

¹⁰⁹ EU private sector representative, interview with USITC staff, April 8, 2010; EU private sector representative, interview with USITC staff, April 9, 2010.

¹¹⁰ OECD, “Officially-Supported Export Credits and Small Exporters,” 6.

¹¹¹ For further information, see the Germany country profile later in this chapter. Government of Germany, Bavarian Ministry for Economic Affairs, Infrastructure, Transport and Technology Web site, <http://www.bavaria.org/> (accessed April 16, 2010); Ministry of Economic Affairs and Energy, North Rhine-Westphalia Web site, <http://www.economy.nrw.de/ministerium/index.php> (accessed April 16, 2010).

Business Act for Europe (SBA for Europe) in June 2008,¹¹² with the stated objectives to “put SMEs at the forefront of decision-making, to strengthen their potential to create jobs in the EU and to promote their competitiveness both within the Single Market and in the global markets.”¹¹³ Among the concerns about European SMEs cited in the SBA for Europe were that “EU SMEs still have lower productivity and grow more slowly than their counterparts in the United States,” and that SMEs in the United States provided greater longer-term employment and were more successful sources of business innovation.¹¹⁴

The SBA for Europe applies to all EU-defined SMEs (independent companies with fewer than 250 employees; see table 2.1).¹¹⁵ Technically not a legal instrument within the EU,¹¹⁶ the SBA for Europe comprises several different elements designed to improve the legal and administrative environment for SMEs throughout the EU. It includes a set of 10 common principles to guide policies at the EU and national levels, as well as legislative proposals for future implementation.¹¹⁷ The main elements of the SBA for Europe are:

- Provisions to design SME-friendly legislation at the EU and at the national level. The “think small first” principle directs that legislation made at the EU and national levels take SMEs’ interests into account at the very early stages of policymaking in order to make legislation more SME-friendly.¹¹⁸
- The “SME test” to ensure that the interests of SMEs are taken into account at the earliest possible stage of the policymaking process. The SBA for Europe directs that all new legislative and administrative proposals be subjected to a review to assess their impact on SMEs. A number of EU countries, including Belgium, Denmark, Finland, and Germany, have integrated an “SME test” into their national decision-making process.¹¹⁹
- A provision to appoint an SME envoy, whose role is to open channels of communication between the EC and SMEs and their representative organizations. The envoy also is to act as the promoter of SMEs’ interests throughout the whole EC to ensure that the “think small first” principle is being applied effectively.¹²⁰

¹¹² EC, “Frequently Asked Questions (FAQ) about the ‘Small Business Act’ for Europe (SBA),”

¹¹³ EC, *Commission Working Document: Report on the Implementation of the SBA*, 2009, 1.

¹¹⁴ EC, *Communication from the Commission*, 2008, 3.

¹¹⁵ EC, Directorate-General for Enterprise and Industry, “‘Small Business Act’ for Europe,” <http://ec.europa.eu/enterprise/policies/sme/small-business-act/> (accessed February 16, 2010).

¹¹⁶ EC, “Frequently Asked Questions (FAQ) about the ‘Small Business Act’ for Europe (SBA),” http://ec.europa.eu/enterprise/policies/sme/files/docs/sba/sba_faq_en.pdf (accessed February 3, 2010). “The symbolic name of an ‘Act’ given to this initiative underlines the political will to recognize the central role of SMEs in the EU economy and to put in place for the first time a comprehensive policy framework for the EU and its Member States.” EC, *Communication from the Commission*, 2008, 4.

¹¹⁷ EC, Directorate-General for Enterprise and Industry, “‘Small Business Act’ for Europe,” <http://ec.europa.eu/enterprise/policies/sme/small-business-act/>, accessed February 16, 2010; and EC, “‘Small Business Act’ for Europe,” http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm.

¹¹⁸ EC, Directorate-General for Enterprise and Industry, “‘Think Small First’ Principle,” http://ec.europa.eu/enterprise/policies/sme/small-business-act/think-small-first/index_en.htm (accessed February 16, 2010).

¹¹⁹ EC, *Commission Working Document: Report on the Implementation of the SBA*, 2009, 3.

¹²⁰ EC, Directorate-General for Enterprise and Industry, “SME Envoy,” <http://ec.europa.eu/enterprise/policies/sme/small-business-act/sme-envoy/>.

- To promote entrepreneurship through the “Erasmus for Young Entrepreneurs” program. The program aims to help young entrepreneurs gain experience and insight by spending up to six months working in an SME in a different country.¹²¹
- To support and encourage SMEs to benefit from the growth of markets outside the EU. The SBA for Europe calls for the creation of Market Access Teams in key export markets to bring together EU countries’ trade councilors and EU business organizations to improve SMEs’ access to information on markets outside the EU. It also calls for the establishment of business support centers in China and India to help European SMEs achieve greater access to these markets.¹²²

In its most recent report on the implementation of the SBA for Europe, the EC observed that a number of EU countries have “transposed” the SBA into their national policy programs, and that even some subnational regions, such as Catalonia (Spain) and North Rhine-Westphalia (Germany), have implemented measures similar to those of the SBA for Europe.¹²³

Summary Comparison of U.S. and EU Support for SME Exporting Activities

Based on information received for this investigation through hearing testimony, written submissions, and interviews, key differences between U.S. and EU export promotion programs and policies include:

- **U.S. trade finance programs offer broad support for SMEs:**
 - The United States generally supports a broad range of trade-financing programs to support SME exporting activities,¹²⁴ while many European countries offer no provisions in such areas as foreign exchange risk cover, direct lending, and working capital.¹²⁵
 - There are notable differences with respect to pre-export financing¹²⁶ and short-term credit. The United States provides a wider range of support, particularly at the early exporting stages.¹²⁷ EU countries generally do not provide pre-export financing comparable to the Ex-Im Bank’s working capital guarantee program; the United Kingdom reportedly is considering a

¹²¹ EC, Directorate-General for Enterprise and Industry, “Erasmus for Young Entrepreneurs,” http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/erasmus-entrepreneurs/index_en.htm.

¹²² EC, *Commission Working Document: Report on the Implementation of the SBA*, 2009, 3; EC, “European Small Business Portal: EU SME Policy,” http://ec.europa.eu/small-business/policy-statistics/policy/index_en.htm (accessed May 17, 2010).

¹²³ EC, *Commission Working Document: Report on the Implementation of the SBA*, 2009, 2–3.

¹²⁴ The United States offers all of the following: short-term insurance, medium- and long-term export credit; fixed-rate financing; foreign exchange risk cover; direct lending; investment insurance; bond support; unfair calling insurance; letter of credit guarantee; and working capital. USITC hearing testimony, March 18, 2010 (Diane Farrell, Export-Import Bank of the United States, PowerPoint slide 6).

¹²⁵ USITC hearing transcript, March 18, 2010, 28 (testimony of Diane Farrell, Export-Import Bank of the United States).

¹²⁶ Pre-export working capital financing provides a firm with a guarantee to obtain a loan that will facilitate the export of goods or services in advance of the actual exports. Ex-Im Bank, “Working Capital Guarantee,” http://www.exim.gov/products/work_cap.cfm (accessed May 15, 2010).

¹²⁷ USITC hearing transcript, March 18, 2010, 27 (testimony of Diane Farrell, Export-Import Bank of the United States).

pre-export financing program.¹²⁸ One source reported that EU countries generally do not provide official short-term credit comparable to that of Ex-Im Bank except for Germany's Euler-Hermes export guarantee program¹²⁹ and an EC-authorized short-term export credit program available in France.¹³⁰ There is little difference between U.S. and EU export credit agencies with respect to medium- and long-term export credit, as they all adhere to OECD guidelines.¹³¹

- The Ex-Im Bank requires that at least 51 percent of the content of a project be made in the United States and shipped from the United States to receive short-term financing.¹³² This requirement excludes exports with a lower U.S. content and could exclude U.S. SMEs seeking international expansion through other means than exporting goods. The U.S. SBA export working capital program does not have a U.S. content requirement.¹³³
- **The EU provides greater support for trade fair participation:** Participation in trade fairs is consistently reported to be one of the most cost-efficient and effective ways for helping SMEs achieve international recognition and make contact with potential foreign customers.¹³⁴ The U.S. Trade Fair Certification program provides U.S. government endorsement, oversight, promotional support, marketing facilitation, and other assistance at international trade fairs, and the USDA provides fee-based support for U.S. food and beverage exporters at trade shows.¹³⁵ However, the U.S. federal government generally does not provide funding for SMEs to participate in international trade fairs as many EU countries do, although funding on a cost-share basis may be available at the U.S. state level. Co-financing for trade fair participation is available in most EU countries from national and local government agencies. For example, Germany offers co-financing for participation in trade fairs for firms that produce products in Germany or that manufacture abroad under several programs.¹³⁶
- **The EU offers extensive networks of assistance in foreign markets:** SMEs in both the United States and the EU have access to a broad network of official government assistance in foreign markets. However, through the multiple

¹²⁸ Ibid.

¹²⁹ So named because management of the guarantees is provided by Euler Hermes Kreditversicherungs-AG (Euler Hermes) and PricewaterhouseCoopers AG WPG. For further information, see Euler Hermes, "Export Guarantees," <http://www.eulerhermes.ru/en/export-guarantees/export-guarantees.html> (accessed May 15, 2010). See the Germany country profile later in this chapter for additional information.

¹³⁰ USITC hearing transcript, March 18, 2010, 27–28 (testimony of Diane Farrell, Export-Import Bank of the United States).

¹³¹ OECD guidelines are discussed in box 2.4 above. USITC hearing transcript, March 18, 2010, 27 (testimony of Diane Farrell, Export-Import Bank of the United States).

¹³² Ex-Im Bank, "Foreign Content Policy for Short-Term Exports," http://www.exim.gov/products/policies/foreign_short.cfm (accessed April 20, 2010).

¹³³ SBA, Export Working Capital Program (EWCP)," http://www.sba.gov/financialassistance/borrowers/guaranteed/7alp/EXP_WORK_CAPITAL_7A-LOAN-PROG.html (accessed April 20, 2010).

¹³⁴ USITC hearing transcript, March 12, 2010, 64 (testimony of Tim McCabe, Business Development Department of Oregon).

¹³⁵ USDOC, ITA, *Export Programs Guide*, 2009, 50.

¹³⁶ German government official, interview with USITC staff, April 7, 2010; Government of Germany, Ministry of Economics and technology (BMW), Federal Office of Economics and Export Control (BAFA), "Funding for Trade Fairs and Foreign Trade Aid," <http://www.foerderinfo.bund.de/en/653.php> (accessed May 15, 2010).

worldwide networks established at the EC, national, and regional levels and the EEN, SMEs from EU countries appear to have access to more extensive networks of assistance in foreign markets than U.S. SMEs. Assessing the effectiveness of that assistance was beyond the scope of this investigation. Beginning in 2007, USDOC Commercial Service (USCS) implemented a plan to “strategically realign resources from developed markets . . . to developing markets, such as India and China.”¹³⁷ According to one source, this realignment “leaves established global markets for SMEs without [USCS] presence in some cases.”¹³⁸

- **EU programs for SMEs target measures to counter the perceived “lag” behind U.S. SMEs:** As discussed above, EC documents cite a perceived “lag” behind U.S. SMEs with respect to productivity and innovation as a key factor driving the SBA for Europe.¹³⁹ This also appears to be related to long-standing EC concerns about any possible adverse economic impacts on SMEs of EU enlargement and resulting increased competition within the single EU market.¹⁴⁰
- **The EU uses investment promotion to support SME exporting activities:** Some EU countries actively seek and promote opportunities for inbound FDI as part of their efforts to promote exports. For example, Germany and Poland seek foreign investors to construct export-oriented manufacturing facilities; once operational, these facilities develop supply chain linkages with domestic SMEs, thereby contributing to SME indirect exports.¹⁴¹

European Institutional Support for SME Exporting Activities: Selected EU Countries

It was not possible within the time frame for this investigation to collect and analyze information for each of the 27 EU member countries on their programs to support SME exporting activities. To provide an admittedly limited overview of EU activities and programs at the national level, the Commission conducted case studies on four EU countries—France, Germany, Ireland, and Poland. These countries were selected as representative of the economic diversity that characterizes the EU. Selected economic indicators for these countries are presented in table 2.8.

Each country profile has five main sections: (1) country economic overview, (2) the SME business environment, (3) SME exporting activities, (4) exporting constraints facing

¹³⁷ USDOC, ITA, “Department of Commerce Announces Plan to Shift Resources to World’s Emerging Markets,” March 28, 2007.

¹³⁸ GAO, *Export Promotion*, 2009, 12.

¹³⁹ EC, *Communication from the Commission*, 2008, 3; Council of the European Union, “Conclusions on ‘Think Small First—A Small Business Act for Europe.’”

¹⁴⁰ EC, Observatory of European SMEs, *The Impact of EU Enlargement on European SMEs*, 2003, 7.

¹⁴¹ Polish industry official, interview with Commission staff, April 6, 2010; Polish academic official, interview with Commission staff, April 6, 2010; German government official, interview with Commission staff, April 7, 2010. See the case studies of Germany and Poland later in this chapter.

TABLE 2.8 France, Germany, Ireland, and Poland: Selected economic indicators, 2009

| | France | Germany | Ireland | Poland |
|---|--------|---------|---------|--------|
| GDP (nominal, US \$ billion) | 2,677 | 3,354 | 221.6 | 441.9 |
| Real GDP growth (%) | -2.2 | -5.9 | -7.0 | 1.7 |
| Population (million) | 62.6 | 82.8 | 4.3 | 38.1 |
| GDP per capita (\$ at PPP) | 33,717 | 33,339 | 41,416 | 18,006 |
| Goods exports (US \$ billion) | 472.7 | 1,159 | 109.7 | 128.4 |
| Goods imports (US \$ billion) | -538.9 | -966 | -66.9 | -133.0 |
| Merchandise trade balance (US \$ billion) | -66.2 | 192 | 42.7 | -4.6 |
| Services balance (US \$ billion) | 16.5 | -40 | -8.1 | 5.1 |

Source: EIU, *France: Country Report*, 2010,17; *Country Report: Germany*, 2010,17; *Country Report: Ireland*, 2010,14; *Poland Country Report*, 2010, 17.

SMEs, and (5) national policies and programs promoting SME exporting activities.¹⁴² The constraints facing SMEs are discussed relative to the top five barriers identified by OECD cross-country surveys as discussed earlier in this chapter. Those top constraints are:

- shortage of capital to finance exports;
- problems identifying foreign business opportunities;
- limited information to locate and analyze markets;
- inability to contact potential foreign customers; and
- lack of managerial time, skills, and knowledge.¹⁴³

France

Economic Overview

With a GDP of nearly \$2.7 trillion, France ranked as the 2nd largest EU economy after Germany in 2009.¹⁴⁴ France ranked 30th out of 43 European countries in 2010 based on a composite index of economic freedom that included factors such as business freedom, trade freedom, investment freedom, financial freedom, and the protection of intellectual property rights (IPR).¹⁴⁵ Although it ranked above the world average on the overall index, economic freedom in France “remains curtailed by the pervasive presence of the state in

¹⁴² The discussions of EU member country exporting activities in this section refer to all cross-border trading activities, including trade within and trade outside of the EU market.

¹⁴³ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 7; OECD, *Removing Barriers to SME Access to International Markets*, 2008, 54.

¹⁴⁴ EIU, *France: Country Report*, 2010, 17.

¹⁴⁵ Among all countries, France ranked as the 64th freest economy. Heritage Foundation, “2010 Index of Economic Freedom: France,” 197.

economic activity,” as “the government’s dominance continues in major sectors of the economy.”¹⁴⁶ France’s ranking reflected a lack of transparency in standards and regulations, barriers to services market access, and pharmaceutical sector restrictions that exceed those mandated by the EU. Nevertheless, France’s regulatory environment reportedly makes it relatively easy to establish and run a business, and IPR protection in France is very strong.¹⁴⁷

France has a diversified economy. The financial and business services sector (including banking, insurance, real estate, and other business services) make up more than one-third of the French economy, the largest among the countries studied in this report. Government services account for 25 percent of the French economy, also the largest among the countries studied in this report. Other leading sectors of the French economy include transport, trade, and hotels and restaurants (19 percent), industry (14 percent), construction (6.5 percent) and agriculture (about 2 percent).¹⁴⁸

France’s leading goods export sectors in 2009 by value were electrical, mechanical, and electronic machinery (20 percent of total manufactured exports); transportation equipment, including motor vehicles and parts and aircraft parts (20 percent); chemicals, perfumes, and cosmetics (12 percent); and food and beverage products (10 percent).¹⁴⁹ The EU was the primary destination market for French exports in 2009, with Germany and Spain the leading country markets. The United States ranked as the sixth leading market for French goods exports and the leading non-EU market in 2009.¹⁵⁰ France has long benefited from a surplus on trade in services due largely to receipts from tourism.¹⁵¹

SME Business Environment

SMEs account for approximately 99.8 percent of all enterprises in France, identical to the EU average; 92.3 percent of French enterprises are micro enterprises. SMEs account for 61.3 percent of national employment, below the EU average (67.1 percent); micro-sized enterprises employ a marginally larger share of the workforce than small and medium-sized firms.¹⁵² SMEs in France account for 48.4 percent of total value added, below the EU average (57.9 percent).¹⁵³

According to a recent EC assessment of SME activities, France ranked above the EU average in the categories of internationalization and skills and innovation, and on par with the EU average with respect to entrepreneurship, responsive administration, and finance. In particular, the EC observed:

¹⁴⁶ Heritage Foundation, “France,” *2010 Index of Economic Freedom*, 198.

¹⁴⁷ Ibid.

¹⁴⁸ Data are for 2007. OECD, “Country Statistical Profiles 2009.”

¹⁴⁹ Government of France, Ministry of the Budget, *Aperçu du commerce extérieur de la France, 2009*.

¹⁵⁰ Ibid.

¹⁵¹ EIU, *France: Country Profile*, 2008, 36 and 39.

¹⁵² Based on data for 2004 and 2005. EC, *SBA Fact Sheet: France*, 2008, 1. According to the EC, micro enterprises have fewer than 10 employees and an annual turnover or balance sheet of less than €2 million (\$2.4 million). Medium-sized enterprises have 50–249 employees with either annual turnover ≤ €50 million (\$61 million) or a balance sheet ≤ €43 million (\$52 million). EC, Directorate-General for Enterprise and Industry, *The New SME Definition: User Guide and Model Declaration*, n.d., 14 and 16. See also table 2.1. Based on an exchange rate of Based on an exchange rate of US\$1.00 = €0.8227 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

¹⁵³ Based on data for 2004 and 2005. EC, *SBA Fact Sheet: France*, 2008, 1.

- **Internationalization:** A much larger share of French SMEs gained income from subsidiaries and/or joint ventures abroad than SMEs in other EU countries. Moreover, France ranked as having more efficient procedures for exporting and importing than the EU average.
- **Skills and innovation:** More than 80 percent of all French SMEs provided training for their staff (compared to the EU average of 66.5 percent), with even very small (micro) enterprises in France reporting higher participation rates in learning activities than the EU average. French SMEs reportedly spent more time on continuous vocational training than the EU average.
- **Entrepreneurship:** A substantially larger share of the population was reported to have participated in entrepreneurship education in France than the EU average, although there were fewer women entrepreneurs in France than the EU average.
- **Responsive administration:** The time required to start a business and the costs required to set up and close a business were lower in France than the EU average. The costs of enforcing contracts also were lower in France than the EU average.
- **Finance:** Access to venture capital and guarantees for SMEs in France was reported to be on par with the EU average.¹⁵⁴

According to one French source, services accounted for more than one-half of French SME economic activity in 2008, followed by wholesale/retail trade (23 percent) and industry (21 percent).¹⁵⁵ Approximately 23 percent of SME workers were engaged in providing business services in 2008, followed by wholesale/retail trade (20 percent), personal services (15 percent), and construction (10 percent). Among the manufacturing industries, 8 percent of SME workers were engaged in the production of intermediate goods in 2008; the production of industrial equipment, food and beverages, and motor vehicles each accounted for less than 5 percent of French SME employment.¹⁵⁶

SME Exporting Activities

SMEs in France are less likely to participate in cross-border trade than SMEs in other EU countries,¹⁵⁷ with only 6 percent exporting in 2007 (the 4th lowest in the EU) compared to the EU average of 8 percent, according to EC survey data.¹⁵⁸ Data from the French government show that the propensity for French firms of all sizes to export is below that of Germany but greater than those of the United Kingdom and Spain.¹⁵⁹

¹⁵⁴ EC, *SBA Fact Sheet: France*, 2008, 2–3.

¹⁵⁵ CGPME, “Les PME, une place majeure dans l’économie nationale,” June 2008.

¹⁵⁶ OSEO, *PME 2009: Rapport OSEO sur l’évolution des PME, deuxième partie*, 2009, 60, table 1.

¹⁵⁷ French government official, interview with USITC staff, April 14, 2010.

¹⁵⁸ Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 44.

¹⁵⁹ Government of France, Ministry of the Economy, DGTPE, “The Many Faces of the French Export Setup,” March 2009, 2.

Exports by French SMEs were valued at €108 billion (\$131 billion) in 2008, or about 26 percent of the total value of French exports of €408 billion (\$496 billion),¹⁶⁰ and about one-half of SME exports by value were industrial goods.¹⁶¹ French data suggest that trade intermediaries conduct a significant amount of indirect trade, particularly for bulk exports of agricultural and food industry products, and that “firms specializing in international trade tend rather to act on behalf of small and very small businesses that have neither the resources nor the means to handle their foreign sales unaided.”¹⁶²

French SMEs tend to export to a few nearby markets.¹⁶³ Almost 68 percent of French SME exports were shipped to other EU countries. Other markets included non-EU European countries (8 percent), Asia (8 percent), Africa (7 percent), and the Americas (7 percent).¹⁶⁴ One-half of nonsubsidiary French SME exporters shipped goods to just one foreign market. Belgium and Switzerland were especially popular markets for French SME exporters, indicating “a clear preference for exporting to the markets that are geographically and culturally closest.”¹⁶⁵

French SME exporting activity shows evidence of an exporting learning curve—greater experience in exporting tends to lead to greater success in exporting. First-time French SME exporters tend to be smaller than more experienced exporters, and exported on average to just two foreign markets.¹⁶⁶ In contrast, “regular” SME exporters (firms that exported for at least five consecutive years) shipped to seven foreign markets.¹⁶⁷ French SMEs surveyed had been exporting for about 2.7 years on average. More than two-thirds of French SMEs that began exporting in one year no longer exported the following year. More than two-thirds of French exports by value in 2008 were conducted by SMEs that had been in business five years or more.¹⁶⁸

French government data provide additional insight into the characteristics of innovation-oriented SMEs and their exporting activities. Based on a survey of approximately 6,500 innovation-oriented SMEs, one study reported that innovation-focused SMEs had a greater propensity to seek markets outside of France than non-innovation focused firms.¹⁶⁹ That study reported that about one-half of innovation-oriented SMEs in business for three years or more exported (compared to one in 20 of all French firms), and one-fourth of innovation-oriented SMEs in business for less than three years (young SMEs) regularly exported. One-half of young SMEs in the survey received at least 33 percent of their sales from exports in 2008, while SMEs in business three years or more received 28 percent of their sales from exports. The report observed that young SMEs were more

¹⁶⁰ OSEO, *PME 2009: Rapport OSEO sur l'évolution des PME, deuxième partie*, 2009, 119. Based on an exchange rate of US\$1.00 = €0.8227 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

¹⁶¹ *Ibid.*, 120.

¹⁶² Government of France, Ministry of the Economy, DGTPE, “The Many Faces of the French Export Setup,” 2009, 3.

¹⁶³ *Ibid.*, 4.

¹⁶⁴ OSEO, *PME 2009: Rapport OSEO sur l'évolution des PME, deuxième partie*, 2009, 124.

¹⁶⁵ Government of France, Ministry of Economy, DGTPE, “The Many Faces of the French Export Setup,” 2009, 4.

¹⁶⁶ *Ibid.*, 7.

¹⁶⁷ Government of France, Ministry of the Economy, DGTPE, “The Many Faces of the French Export Setup,” 2009, 6.

¹⁶⁸ OSEO, *PME 2009: Rapport OSEO sur l'évolution des PME, deuxième partie*, 2009, 123.

¹⁶⁹ *Ibid.*, 75.

likely to develop innovations that were more applicable to a wider client base, giving them the greater opportunity to service markets beyond French borders.¹⁷⁰

Exporting Constraints Facing SMEs

According to a French government source, “[e]ven when exporting to nearby countries, the obstacles are considerable.” The reason cited for this is “the persistence of ‘frontier effects,’ resulting in particular from fixed export costs caused by market imperfections, even within an integrated area such as the European Union.” The source further reported that “for a small independent French SME, it is much ‘easier’ to sell its products to a customer in a different part of France than to sell them to a foreign customer.”¹⁷¹ According to an EC survey, the most frequently reported constraints to exporting by French SMEs were tariffs in the destination market (reported by 11 percent of French SMEs), lack of knowledge of foreign market (7 percent), and lack of capital (5 percent).¹⁷²

Using the most important barriers to SME exporting activities identified by the OECD as a guideline,¹⁷³ the Commission identified the following barriers reported by French firms:

- **Shortage of capital to finance exports:** Many sources identified inadequate availability of financing as a significant barrier to French SME exporters,¹⁷⁴ and recommended that improved access to export credit guarantees and other export financing is essential to increasing exports by French SMEs.¹⁷⁵ The problems of inadequate financing for French SMEs were reported to have been exacerbated by the 2008–09 global economic recession (see also box 2.2).¹⁷⁶
- **Problems identifying foreign business opportunities:** One source reported that French micro-sized firms are unlikely to export and that such firms rarely investigate foreign market possibilities.¹⁷⁷
- **Limited information to locate and analyze markets:** One source reported that improved access to foreign market information would enable French SMEs to make more informed decisions about entering new markets.¹⁷⁸
- **Lack of managerial time, skill, and knowledge:** Sources identified inadequate managerial capacity at the firm level as a barrier to exporting by French SMEs, and

¹⁷⁰ OSEO, *PME 2009: Rapport OSEO sur l'évolution des PME, deuxième partie*, 2009, 75–76.

¹⁷¹ Government of France, Ministry of Economy, DGTPE, “The Many Faces of the French Export Setup,” 2009, 7–8.

¹⁷² Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 53.

¹⁷³ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 7; OECD, *Removing Barriers to SME Access to International Markets*, 2008, 54.

¹⁷⁴ French government official, interview with USITC staff, April 14, 2010. See also CGPME, “Les PME et l’exportation”; Comité Richelieu, “Le Comité Richelieu renouvelle ses demandes,” May 13, 2008; Government of France, Economic and Social Council, *SMEs and Foreign Trade*, 2007, 19.

¹⁷⁵ Government of France, Economic and Social Council, “Note de présentation: PME et commerce extérieur”; Government of France, Economic and Social Council, *SMEs and Foreign Trade*, 2007, 19.

¹⁷⁶ Banque de France, “La situation des entreprises en 2008,” 4th quarter 2009; IFOP, *Baromètre sur le financement pour et l’accès au crédit des PME*, 2010.

¹⁷⁷ French government official, interview with USITC staff, April 14, 2010.

¹⁷⁸ Ibid.

recommended creating advisory, coaching, and networking services to assist SME managers.¹⁷⁹ One French government report also identified insufficient technical knowledge, especially knowledge of foreign languages, as a constraint on exporting by French SMEs. The report recommended that technical foreign trade advisors be assigned to work with French SMEs. The report also discussed the importance of developing an entrepreneurial class in France that was willing to travel to foreign markets.¹⁸⁰

Another barrier to French SME exporting activities identified by the Commission was:

- **Low use of public sector support programs:** To explain the low level of exporting by French SMEs, one source reported that France had numerous institutions involved in supporting SME exporting activities, resulting in confused, overlapping, and ambiguous roles of various national and local public institutions.¹⁸¹ Recommendations included establishing a “single window” for SME exporters to address the personnel and knowledge limitations that keep SMEs from properly managing the administrative requirements of exporting.¹⁸² Another source recommended that France develop diagnostic tools to identify SMEs with export potential and provide those firms with long-term support in their exporting activities.¹⁸³

National Policies and Programs Supporting SME Exporting Activities

The Government of France supports SME exporting activities primarily through the Ministry of Economy, Industry, and Employment (Ministry of Economy) and its Office of Competitiveness, Industry, and Services (DGCIS).¹⁸⁴ Also working under the Ministry of Economy to support SME exporting activities is its international business development agency Ubifrance, which provides foreign market information and accompanies French firms on international trade missions.¹⁸⁵ Other key agencies include:

- Coface, a private multinational financial services company that provides trade credit information and trade credit finance and insurance worldwide. Coface also provides trade credit guarantees to French firms on behalf of the French government.¹⁸⁶ As a provider of official trade credit for the French government, Coface adheres to OECD guidelines for export credits.¹⁸⁷

¹⁷⁹ Government of France, Economic and Social Council, *SMEs and Foreign Trade*, 2007, 19.

¹⁸⁰ *Ibid.*, 19–20.

¹⁸¹ Government of France, Economic and Social Council, “Note de présentation: PME et commerce extérieur.”

¹⁸² Comité Richilieu, “Huit mesures pour développer l’exportation des PME françaises.”

¹⁸³ Government of France, Economic and Social Council, “Note de présentation: PME et commerce extérieur.”

¹⁸⁴ Ministère de l’Économie, de l’industrie et de l’emploi and La Direction générale de la compétitivité, de l’industrie et des services (DGCIS).

¹⁸⁵ French government officials, interview with USITC staff, April 14, 2010.

¹⁸⁶ Coface, “Garanties gérées pour le compte de l’État.”

¹⁸⁷ French government officials, interview with USITC staff, April 14, 2010.

- OSEO,¹⁸⁸ an agency jointly managed by the Ministry of Economy and the Ministry of Higher Education and Research, that was established to support innovation and growth in French SMEs. Its main goal is to provide loans to French SMEs to support innovation and development.¹⁸⁹
- The Union of French Chambers of Commerce and Industry Abroad (UCCIFE)¹⁹⁰ network, which represents 114 French Chambers of Commerce (CCIF)¹⁹¹ and has a presence in 78 countries. Both the UCCIFE and the CCIF assist French companies in foreign markets by providing a variety of services, such as foreign market analyses and business-to-business matchmaking.¹⁹² One of the main activities of the CCIF is to identify export-ready SMEs and to send them to Ubifrance for export-related commercial services.¹⁹³

Government financial assistance programs in support of SME exporting activities

Direct government support to help finance French SME exporting activities include two programs by Ubifrance:

- Export development loans: Financing of €20,000–€80,000 (\$24,300–\$97,240) for up to 6 years (with 1 year deferral) to cover the costs of tangible and intangible goods and services needed for French SMEs to establish an international market presence.¹⁹⁴
- SIDEX program:¹⁹⁵ Short-term aid for SME export project finalization for a maximum period of fifteen days for French firms located in France. Maximum of €7,500 (\$9,116) for a maximum period of 15 days; limited to 3 different projects per establishment per year.¹⁹⁶

OSEO also provides several financial assistance programs for SMEs:

- Export investment guarantees and financing to expand production and production capacity in order to export.¹⁹⁷
- Credit guarantees for pre-export financing and export credit risk guarantees.¹⁹⁸

¹⁸⁸ OSEO (its official name) is a French government agency established in 2005 as the result of the merger of a French government research agency and a government SME banking agency. OSEO, “OSEO: le nom du nouvel ensemble issu du rapprochement de l’ANVAR et de la BDPME.”

¹⁸⁹ Ibid.

¹⁹⁰ L’Union des Chambres de Commerce et d’Industrie Françaises à l’Etranger (UCCIFE).

¹⁹¹ Chambres de Commerce et d’Industrie Françaises à l’Etranger (CCIF).

¹⁹² UCCIFE, “What Is UCCIFE?”

¹⁹³ French government officials, interview with USITC staff, April 14, 2010.

¹⁹⁴ Ubifrance, “Prêt pour l’export OSEO.” Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

¹⁹⁵ Soutien Individualisé à la Démarche Export des PME et TPE (SIDEX) [Individualized Support to Promote SME Exports]. For further information, see Ubifrance, “Prospection ou Contrat.”

¹⁹⁶ Ubifrance, “SIDEX prospection ou contrat;” and Société d’Encouragement aux Métiers d’Art, “SIDEX.” Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

¹⁹⁷ OSEO, *Supporting Growth and Innovation for SMEs*, 2008, 4–6.

¹⁹⁸ Ibid.

- Loans for export of €20,000–€80,000 (\$24,300–\$97,240) for up to 6 years for SMEs to develop exports or set up a business operation in another country.¹⁹⁹
- International development contract loans of €40,000–€400,000 (\$48,620–\$486,200) for up to 6 years (with 1 year deferral) for SMEs in business 3 years or longer seeking to export for the first time or already exporting a product. Loans are to cover intangible project costs such as costs for localization of product to foreign market, attending foreign trade fairs, relocating materials, and creating a foreign branch.²⁰⁰

Export promotion programs

There are a wide range of programs to promote exporting activities by French SMEs. The majority are also the responsibility of Ubifrance:

- In 2008, under the rubric of L'Équipe de France de l'Export (Team France Export), Ubifrance began working with such bodies as the Ministry of Economy's Office of the Treasury and Political Economy, the CCIFE, the UCCIFE, and others to realign all of France's existing systems for supporting SME exporting activities with the goal of defining their respective roles and reducing duplication of responsibilities.²⁰¹ Beginning in 2009, the French government began placing the economic missions of French embassies worldwide under the management of Ubifrance, to enable Ubifrance to offer SME exporters a coordinated plan for entering international markets.²⁰² The Programme France 2010 was launched in October 2009 to further consolidate the activities of Team France Export and increase the effectiveness of export support through international trade fairs, business-to-business networking, foreign trade missions, and the establishment of technological partnerships.²⁰³
- Since 2000, the VIE (international company volunteers) program²⁰⁴ has made it possible for individuals between 18 and 28 years of age (typically, recent graduate students) to work abroad on an SME company-specific export project (e.g., setting up a local presence or a local distribution network) for 6 to 24 months. The volunteers' work is free to the SMEs; volunteers receive a monthly stipend from the French government.²⁰⁵ One source referred to the VIE program as France's "hidden secret," seeing it as an effective export promotion policy instrument that

¹⁹⁹ Ibid., 9. Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, "Representative Exchange Rates for Selected Currencies," June 1, 2010.

²⁰⁰ OSEO, *Supporting Growth and Innovation for SMEs*, 2008, 10. Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, "Representative Exchange Rates for Selected Currencies," June 1, 2010.

²⁰¹ Ministry of the Economy, "L'équipe France de l'export." The Ministry of Agriculture provides export promotion for French agricultural products via the Association for the Development of International Exchanges in Agriculture and Agrifood Products and Techniques, and export promotion for French food and beverage products is provided by the Agency for the Expansion of Sales of Food and Agricultural Products. Government of France, Ministry of Agriculture, *Agenda de l'exportateur 2010*, part 1, January 2010.

²⁰² Government of France, Ministry of the Economy, "L'équipe France de l'export."

²⁰³ Government of France, Ministry of Agriculture, "Le Programme France 2010 réunit les actions de l'Équipe de France de l'export."

²⁰⁴ Volontariat international en entreprise (VIE).

²⁰⁵ Ubifrance, "V.I.E. en bref."

helps improve the skill level of SMEs as well as increase the skill level and international orientation of future French managers.²⁰⁶

- Ubifrance’s “Label France” program offers reduced costs for eligible SMEs to participate in international trade fairs.²⁰⁷
- Ubifrance’s managerial capacity building program for SMEs provides coaching and educational training in areas such as international logistics, customs, and legal issues; trade finance; international negotiations; and international business cultures. This complimentary program is sponsored by Ubifrance, Coface, and other French institutions.²⁰⁸
- Ubifrance offers SMEs personalized foreign market presence services, including foreign market intelligence and legal advice; business-to-business networking and technology partnerships; and assistance with press releases, local market publicity, translation and other localization requirements.²⁰⁹
- Ubifrance export strategy planning provides:
 - “Pre-diagnostic analysis” of individual firms’ intellectual and industrial property needs to assist SMEs in developing an international growth strategy. The analysis is performed by the French National Institute of Industrial Property (INPI).²¹⁰ Analysis is financed by INPI or cofinanced at the regional level, and offered free of charge to SMEs.²¹¹
 - Market prospect analysis, which includes various services offered by Ubifrance to allow French SMEs to test the viability of future exports in foreign markets, identify a customer base, and build business contacts.²¹²
- The Ubifrance-Quebec program encourages partnerships between French and Quebecois SMEs. Co-financed by Ubifrance and Quebec’s Ministère du Développement Economique, de l’Innovation et de l’Exportation du Québec (Ministry of Economic Development, Innovation, and Exports).²¹³

Also significant is the new mission entrusted to OSEO—the Pacte PME (SME Pact). OSEO launched this program in 2007 to encourage cooperation between large firms and innovation-oriented SMEs to support the SMEs’ growth and development. An internationalization component was added in 2009 to extend the reach of innovation-oriented French SMEs into foreign markets. Actions by larger firms to support SME exporting activities include covering foreign lodging costs for a SME worker or international company volunteer and providing market advisory services.²¹⁴

²⁰⁶ French government officials, interview with USITC staff, April 14, 2010.

²⁰⁷ Ubifrance, “Label France—Labellisation,” 2008.

²⁰⁸ Ubifrance, “Formation Export [Formatex].”

²⁰⁹ Ubifrance, “Contacts.”

²¹⁰ Institut national de la propriété industrielle (INPI).

²¹¹ Ubifrance, “Pré-diagnostic INPI.”

²¹² Ubifrance, “Prospection de marché.”

²¹³ Ubifrance, “Programme Ubifrance-Québec.”

²¹⁴ OSEO, “Pacte PME international : Lancement officiel.”

Germany

Economic Overview

With a GDP of almost \$3.4 trillion, Germany ranked as the largest EU economy in 2009.²¹⁵ Germany was ranked 12th out of 43 European countries in 2010 by a composite index of economic freedom that included factors such as business freedom, trade freedom, investment freedom, financial freedom, and the protection of property rights.²¹⁶ Germany scored highest in protection of property rights, ranking second worldwide in a tie with several other countries. Clear and evenly enforced regulations helped Germany to rank significantly above the world average for investment freedom.²¹⁷ Germany ranked among the bottom half of EU members with respect to financial freedom, with private banks accounting for less than 30 percent of the German market and weak representation of foreign banks.²¹⁸ Tax regulations, labor rules, access to financing, tax rates, and government bureaucracy were rated as the most problematic factors for doing business in Germany.²¹⁹

The provision of nongovernment services accounts for more than half of German economic activity, and industrial production makes up more than one-fourth of the German economy.²²⁰ The industrial machinery, automotive, chemical, and telecommunications sectors rank as Germany's main manufacturing industries.²²¹ Germany has many large, internationally known manufacturing firms, but the backbone of the German economy is often considered to be the *Mittelstand*—Germany's vast network of primarily family-owned SMEs.²²²

Germany was the second largest exporter of goods in the world in 2009 behind China.²²³ Germany's leading goods export markets in 2009 were France (which received 10.1 percent of German exports), the Netherlands (6.7 percent), and the United States (6.7 percent); about 63 percent of all German exports were destined for other EU countries. Machinery was Germany's leading export in 2009, accounting for 15.1 percent of total exports, followed by motor vehicles and parts (14.9 percent) and chemical products (9.1 percent).²²⁴ Germany has registered deficits on its services balance for a number of years; a major reason is the foreign exchange outflows associated with German travel abroad.²²⁵

²¹⁵ EIU, *Germany: Country Report*, 2010, 17.

²¹⁶ Among all countries, Germany ranked as the 23rd freest economy. Heritage Foundation, "2010 Index of Economic Freedom: Ranking the Countries,"

²¹⁷ Heritage Foundation, "Germany," *2010 Index of Economic Freedom*, 205.

²¹⁸ *Ibid.*, 206.

²¹⁹ World Economic Forum, *The Global Competitiveness Report, 2009–2010: Germany*, 2009, 152.

²²⁰ Data are for 2007. OECD, "Country statistical profiles 2009."

²²¹ EIU, *Germany: Country Profile*, 2008, 18.

²²² *Ibid.*, 22. The German word "*Mittelstand*" is generally translated into English as "middle class."

However, the economic literature considers *Mittelstand* firms as types of German family-owned business, although Germany has a number of very large family businesses with annual sales of €50 million or more. "Family businesses play a pivotal role in Germany and . . . almost all of them are *Mittelstand* companies. . . . [W]e therefore use the terms *Mittelstand* companies/SMEs and family businesses synonymously." Deutsche Bank Research, *Germany's Mittelstand—An Endangered Species?* 2007, 5.

²²³ OECD, StatExtracts Database.

²²⁴ Government of Germany, Federal Statistical Office (FSO), "Germany's Most Important Goods Traded in 2009," February 3, 2010.

²²⁵ EIU, *Germany: Country Profile*, 2008, 28.

SME Business Environment

SMEs account for approximately 99.5 percent of all enterprises in Germany, very close to the EU average (99.8 percent).²²⁶ They account, however, for 60.1 percent of German national employment, significantly below the EU average (67.1 percent), and for 53.2 percent of value added, below the EU average (57.9 percent). Micro enterprises accounted for 83 percent of employment in Germany's SME sector, below the EU average of nearly 92 percent.²²⁷ Small and medium-sized firms account for a greater share of SMEs in Germany than in the EU as a whole.²²⁸ German SMEs are most prevalent in the construction and the hotel and restaurant sectors, in which they account for more than 90 percent of employment and more than 80 percent of total financial turnover. SMEs also account for most of the employment and turnover in the real estate and rental sector and the wholesale and retail trade sector.²²⁹

German SMEs are highly innovation-oriented, reflecting Germany's relatively high ranking on many global indicators of innovation, such as patent filings and scientific and technical publications.²³⁰ One source estimated that 43 percent of German SMEs are innovative in that they bring new or improved products into the market; according to this source, German SMEs have high potential for increasing their exports through the expansion of the production of knowledge-intensive goods and services.²³¹

According to a recent EC assessment of the policy environment for SMEs, Germany generally ranked on a par with the overall EU average. Germany ranked above the EU average in the categories of responsive administration, regulatory environment, and skills and innovation, but below the EU average in the categories of entrepreneurship, internationalization, and some aspects of finance. In particular, the EC observed:

²²⁶ The Institute for SME Research in Bonn (IfM Bonn), a federally funded German research institution, defines SMEs as enterprises with an annual turnover of less than €50 million (\$61 million) and fewer than 500 employees. Within this category, small businesses have annual turnover less than €1 million (\$1.2 million) and fewer than 10 employees; medium-sized enterprises have annual turnover of €1 million (\$1.2 million) to €50 million (\$61 million) and 10 to 499 employees. Government of Germany, Ministry of Economics and Technology, "Small Business Policy: Priorities of German SME Policy," 2010. Based on an exchange rate of \$1.00 = €1.21559 as of June 1, 2010. IMF, "Representative Exchange Rates for Selected Currencies," June 1, 2010.

²²⁷ Based on data for 2004 and 2005. EC, *SBA Fact Sheet: Germany*, 2008, 1. According to the German government, "the SME sector provides approximately 70% of all jobs and 80% of all training positions in Germany." Government of Germany, Ministry of Economics and Technology, "Small Business Policy: Priorities of German SME Policy." According to the EC, micro enterprises have fewer than 10 employees and an annual turnover or balance sheet of less than €2 million (\$2.4 million). Medium-sized enterprises have 50–249 employees with either annual turnover ≤ €50 million (\$61 million) or a balance sheet ≤ €43 million (\$52 million). EC, Directorate-General for Enterprise and Industry, *The New SME Definition: User Guide and Model Declaration*, n.d., 14 and 16. See also table 2.1. Based on an exchange rate of \$1.00 = €1.2155 as of June 1, 2010. IMF, "Representative Exchange Rates for Selected Currencies," June 1, 2010.

²²⁸ Based on data for 2004 and 2005. EC, *SBA Fact Sheet: Germany*, 2008, 1. Data for 2007 from a different source indicate that SMEs account for 99.7 percent of German enterprises and 70 percent of total employment. Deutsche Bank Research, *Germany's Mittelstand—An Endangered Species?* 2007, 7.

²²⁹ Government of Germany, FSO, "Enterprises and Local Units: Small and Medium-sized Enterprises in Germany," 2008.

²³⁰ Commission of Experts for Research and Innovation (EFI), *Research, Innovation, and Technological Innovation in Germany*, 2009, 100–101.

²³¹ *Ibid.*, 12, 57, and 112.

- **Responsive administration:** Germany performed above the EU average, with data suggesting that the costs to close a business and to enforce contracts are lower in Germany than the EU average.
- **Regulatory environment:** Germany ranked above the EU average with respect to legal rights and access to credit information. However, Germany ranked significantly below the EU average in the degree of support among SMEs for current regulations.²³²

Several German sources contacted by the Commission reported that a complex regulatory environment has an adverse impact on the general business climate in Germany. “The complexity of the German tax system is the greatest deterrent to setting up a business there . . . SMEs are particularly dependent on a transparent, uncomplicated and comparatively light-load tax system.”²³³

- **Skills and innovation:** While on a par with the EU average with respect to providing vocational training and learning activities, German SMEs performed above the EU average in terms of introducing organization innovation and using the Internet.
- **Entrepreneurship:** Germany lagged the EU average in participation in entrepreneurship education and in the desire to become self-employed.²³⁴ One source contacted by the Commission stated that Germans tended to be biased against business ownership and more inclined toward working for a larger, more established firm.²³⁵ Another source described the tendency for German SME managers to be risk averse as an impediment to new business ventures such as exporting.²³⁶
- **Internationalization:** German SMEs reported a lower share of turnover originating from exports than the EU average, and reported a lower share of income from subsidiaries and/or joint ventures abroad than the EU average. German SMEs also recorded a smaller share of intra-EU exporting than the EU average. German SMEs required substantially fewer days to import and export (7 days) than the EU average (13 days), suggesting that Germany has relatively more efficient procedures for international trade.
- **Finance:** While generally performing on par with the EU average, Germany ranked below the EU average with respect to the extent of guarantees available for SMEs.²³⁷

²³² EC, *SBA Fact Sheet: Germany*, 2008, 2–3.

²³³ Deutsche Bank Research, *Germany’s Mittelstand—An Endangered Species?* 2007, 12–14.

²³⁴ EC, *SBA Fact Sheet: Germany*, 2008, 2–3.

²³⁵ German government official, interview with USITC staff, April 7, 2010.

²³⁶ German industry representative, interview with USITC staff, April 9, 2010.

²³⁷ EC, *SBA Fact Sheet: Germany*, 2008, 2–3.

SME Exporting Activities

German SMEs are relatively active exporters. Approximately 12 percent of German enterprises, or a total of 350,000 firms, engage in exporting activities, and about 98 percent of those exporters are SMEs.²³⁸ With 9 percent of SMEs receiving revenues from exporting, Germany ranks marginally above the EU average (8 percent) in SME exporting activities, according to EC survey data.²³⁹ SMEs are not just important for the German domestic market, but “they also represent an important mainstay of the German export industry.”²⁴⁰ Confirming the observation in the economic literature that exporting activity increases with firm size, one source reported that in 2006 only 3 percent of German micro-sized enterprises received revenues from exporting, while 9.9 percent of small SMEs and 16.9 percent of medium-sized SMEs received revenues from exporting.²⁴¹ However, the value of German SME exports appears to be relatively small, with the overall share of SME turnover originating from exports estimated to be 3.5 percent, below the EU average of 4.6 percent.²⁴² Many sources explained that these data do not appropriately reflect the indirect exports many German SMEs participate in, especially among the medium-sized firms that supply the larger exporting firms with intermediary inputs.

Exporting is most important for German SMEs in the transportation goods and manufacturing sectors, in which exports on average account for more than one-fifth of total sales.²⁴³ Like their larger counterparts, German SMEs also focus on high-technology, R&D-intensive, high-value exports. As a result, having low price margins is not as imperative for German SME exporters to be globally competitive as it is for exporters in other countries.²⁴⁴ One source observed that many German SMEs work closely with large firms and depend on large firms for the market-expanding opportunities created by exporting. This source stated that the German motor vehicles, machinery, and chemical industries were examples of sectors with mutual interdependence between SMEs and large firms.²⁴⁵

EC survey data show that other EU countries, particularly the newer EU members of Eastern Europe, accounted for 81 percent of German SME exports; 11 percent of German SME exports were shipped to non-EU Europe, and 8 percent of SME exports were shipped outside Europe.²⁴⁶ German SMEs are also significant indirect exporters through their extensive supply-chain linkages with larger firms and industry clusters. For example,

²³⁸ Deutsche Bank Research, *Germany's Mittelstand—An Endangered Species?* 2007, 8. These data are generally consistent with another source, which states that “345,049 of the German SMEs were involved in exports in 2006—this amounts to 11.2 % of all SMEs and 97.8 % of all enterprises involved in cross-border trade.” Hauser and Werner, “Fostering International Entrepreneurship: Are SMEs Targeted Adequately?” 2009, 4.

²³⁹ Based on 2005 data. Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 44.

²⁴⁰ Deutsche Bank Research, *Germany's Mittelstand—An Endangered Species?* 2007, 8.

²⁴¹ Hauser and Werner, “Fostering International Entrepreneurship: Are SMEs Targeted Adequately?” 2009, 4, table 1.

²⁴² EC, *SBA Fact Sheet: Germany*, 2008, 3.

²⁴³ Data are for 2004. Deutsche Bank Research, *Germany's Mittelstand—An Endangered Species?* 2007, 9.

²⁴⁴ German government official, interview with USITC staff, April 7, 2010.

²⁴⁵ German academic official, interview with USITC staff, April 7, 2010.

²⁴⁶ Data are for 2005. Gallup, *Observatory of European SMEs, Analytical Report*, 2007, 48; and Institute for SME Research Bonn, *The Importance of the Foreign Trade Activities for German SMEs*, 2007, 2.

one source reported that a German SME was retrofitting handicapped chairs to fit into Audi motor vehicles.²⁴⁷

Exporting Constraints Facing SMEs

In an EC report, the most frequently reported constraints to exporting by German SMEs were different regulations in other EU countries (reported by 14 percent of German SMEs), lack of knowledge of foreign markets (12 percent), and tariffs in destination markets (11 percent).²⁴⁸

Using the most important barriers to SME exporting activities identified by the OECD as a guideline,²⁴⁹ the Commission identified the following barriers reported by German firms:

- **Shortage of capital to finance exports:** Sources generally cited the lack of financing as the most significant constraint to German SME business expansion generally, including exporting activities.²⁵⁰ Sources noted that although financing was difficult to obtain before the 2008–09 global economic downturn, SMEs tended to borrow from nontraditional banking sources; as a result, SMEs suffered less than larger firms from the reduced availability of bank financing.²⁵¹
- **Limited information to locate and analyze markets:** While German SMEs generally were reported to have better access to information about potential foreign markets than SMEs in other European countries,²⁵² one German government official stated that the lack of foreign market information was by far the greatest impediment faced by SMEs.²⁵³ Other sources also identified the lack of information about foreign markets as a problem for German SME exporters.²⁵⁴ To improve information about foreign markets, Germany embassies, domestic and foreign commercial services, and industry associations provide a strong support network for German SMEs.²⁵⁵
- **Lack of managerial time, skill, and knowledge:** Sources contacted by the Commission did not indicate that this OECD-identified barrier had a significant adverse impact on SME exporting activities in Germany.

²⁴⁷ German government official, interview with USITC staff, April 7, 2010.

²⁴⁸ Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 52.

²⁴⁹ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 7; OECD, *Removing Barriers to SME Access to International Markets*, 2008, 54.

²⁵⁰ German government official, interview with USITC staff, April 7, 2010; German government official, interview with USITC staff, April 7, 2010; German government official, interview with USITC staff, April 9, 2010.

²⁵¹ German government official, interview with USITC staff, April 7, 2010.

²⁵² German industry official, interview with USITC staff, April 9, 2010.

²⁵³ German government official, interview with USITC staff, April 7, 2010.

²⁵⁴ German academic official, interview with USITC staff, April 7, 2010; Institute for SME Research Bonn, *The Importance of the Foreign Trade Activities for German SMEs*, April 2007, 4.

²⁵⁵ German industry official, interview with USITC staff, April 9, 2010.

Other barriers to German SME exporting activities identified by the Commission include:

- **Low use of public sector support programs:** One source reported that “a significant characteristic of SME promotion in Germany is the abundance of programmes with numerous sources of funding that have created a complex and non-transparent system of SME promotion.”²⁵⁶ Concerns raised included the complex structure of the German export promotion system for SMEs, which effectively required that firms have some prior knowledge about the export promotion system, putting SMEs at a disadvantage relative to larger firms; the fact that “SMEs perceive the current promotion scheme as complex and confusing and the current promotion scheme implies the existence of in-house capabilities and management resources which SMEs typically do not possess”;²⁵⁷ and the lack of a one-stop agency for SMEs.²⁵⁸ Another study concluded that although SMEs apparently benefit from German export promotion programs, “the current promotion system seems to put them systematically at a disadvantage” because large firms are able to incorporate “windfall gains” that are not accessible to SMEs.²⁵⁹
- **Export controls:** Some sources identified German export controls as a barrier to German SME exporting activities, especially for exports containing high-technology dual-use (civilian and potential military use) components.²⁶⁰ The degree of export control varies considerably by sector, with sectors using dual-use technology being subject to scanning of all of their export containers instead of undergoing statistical sampling, as is done in many other industrialized countries.²⁶¹ One source reported that the dual use of computer chips and encrypted cell phones were particularly problematic for SME exporters.²⁶² Another source stated that export controls were a constraint with respect to exports to the Middle East, but not an issue for exports to other EU countries.²⁶³ Specific concerns cited were that export control regimes add to uncertainty, time, and costs for exporters—factors that have a particularly adverse impact on SME exporters.²⁶⁴
- **Foreign nontariff barriers:** Foreign technical standards in important export markets, especially the United States, were reported as a barrier to German SME exporting activities. German officials stated that U.S. nontariff barriers in the automotive sectors were particularly detrimental because most of the suppliers to Germany’s large motor vehicle manufacturers are SMEs.²⁶⁵

²⁵⁶ Führmann, “SME Promotion in Germany,” 2002, 3.

²⁵⁷ Hauser and Werner, “Fostering International Entrepreneurship: Are SMEs Targeted Adequately by Official Foreign Trade Promotion Schemes?” 2009, 15.

²⁵⁸ German academic official, interview with USITC staff, April 7, 2010.

²⁵⁹ Hauser, “The Impact of Foreign Trade Promotion on the Foreign Sales Intensity of SMEs,” January 2009, 5 and 16.

²⁶⁰ German government official, interview with USITC staff, April 7, 2010; German industry official, interview with USITC staff, April 9, 2010.

²⁶¹ German industry official, interview with USITC staff, April 9, 2010.

²⁶² German government official, interview with USITC staff, April 7, 2010.

²⁶³ German academic official, interview with USITC staff, April 7, 2010.

²⁶⁴ German government official, interview with USITC staff, April 7, 2010; German industry official, interview with USITC staff, April 9, 2010.

²⁶⁵ German industry official, interview with USITC staff, April 9, 2010.

National Policies and Programs Supporting SME Exporting Activities

German government institutions provide numerous programs at the national, state (Länder), and local levels to support the growth and development of SMEs. Some of these programs are part of German regional economic policy, which aims to reduce the disparities between different regions, such as less affluent regions in eastern Germany or other parts of the country.²⁶⁶ The German government's small business policy includes measures to reduce the administrative burden, improve access to loan financing, and lower certain tax rates for SMEs.²⁶⁷ Germany also provides a range of policies at the federal, state, and local levels to support SME internationalization (including international cooperation, international contract production, international licensing, foreign direct investments), exporting activities, and the development of foreign markets and production sites.²⁶⁸

The Ministry of Economics and Technology (Ministry of Economics)²⁶⁹ is Germany's lead agency in developing policies to promote foreign trade and investment. The Ministry of Economics works closely with the German private sector to develop instruments for foreign trade and investment promotion and to adapt these instruments to changing needs and demands.²⁷⁰ Germany Trade and Invest (under the Ministry of Economics) is Germany's foreign trade and investment promotion agency;²⁷¹ its mission is to promote Germany as a location for industrial and technological investments and to identify investors for the German market to promote economic activity in Germany.²⁷² The Federal Office of Economics and Export Control (also under the Ministry of Economics) provides information on export controls and conducts trade promotion activities specifically directed at German SMEs.²⁷³

KfW Bankengruppe (KfW), a German government-owned development bank, makes a number of financing instruments available to German SMEs.²⁷⁴ KfW reported that it had taken on a greater role in providing financing for SME suppliers and buyers as a result of the 2008–09 global financial crises. Rather than create new financial instruments, KfW has focused on expanding instruments that have been successfully used in the past.²⁷⁵ KfW also provides trade financing to other European SMEs. For example, KfW has provided financing to Finnvera, Finland's government-owned export credit agency, since 2000 to support Finnish SMEs.²⁷⁶

²⁶⁶ Führmann, "SME Promotion in Germany," 2002, 12.

²⁶⁷ Government of Germany, Ministry of Economics, "Small Business Policy: Priorities of German SME Policy."

²⁶⁸ Führmann, "SME Promotion in Germany," 2002, 19.

²⁶⁹ Bundesministerium für Wirtschaft und Technologie (BMWi).

²⁷⁰ Government of Germany, Ministry of Economics, "Promotion of Foreign Trade and Investment."

²⁷¹ German government official, interview with USITC staff, April 7, 2010.

²⁷² Government of Germany, Germany Trade and Invest Web site,

<http://www.gtai.de/EN/Navigation/Metanavigation/Home/home-node.html> (accessed May 17, 2010).

²⁷³ EC, "Doing Business Outside the EU: Germany," November 2009.

²⁷⁴ German government official, interview with USITC staff, April 7, 2010; Deutsche Bank Research, *Germany's Mittelstand—An Endangered Species?* 2007, 16; KfW, "KfW Bankengruppe," Web site, <http://www.kfw.de/EN/Home/index.jsp> (accessed May 17, 2010).

²⁷⁵ German government official, interview with USITC staff, April 7, 2010.

²⁷⁶ KfW, "KfW's Support for SMEs Continues to Go European," June 13, 2002.

Government financial assistance programs in support of SME exporting activities

Direct government support to promote German SME exporting activities is primarily provided through financing arrangements provided by KfW. The main components of direct government support programs offered by the German government are:

- *Preferential loans.* Loans effectively provide subsidized credit through lower interest rates to qualifying SMEs. SMEs can obtain this financing either directly from KfW or by applying through private banks.²⁷⁷
- *Credit and investment guarantees.*²⁷⁸ German export credit guarantees, often referred to as Hermes cover,²⁷⁹ are particularly useful for German trade with markets considered to pose more risk, such as Russia—Germany’s 11th most important export market.²⁸⁰
- *KfW’s “SME Program-Abroad.”* This program provides low-interest loans to German SMEs to pursue foreign investment activities.²⁸¹

Export promotion programs

Examples of German export promotion programs and activities for SMEs include:

- *Information on foreign markets.* Germany Trade and Invest provides information on foreign trade to German companies seeking access to foreign markets. It has an international network of industry analysts who work with the German Chambers of Industry and Commerce (German Chambers, described below) to conduct research on foreign markets.²⁸² It also supplies the German Chambers with the foreign market information that the German Chambers provide to SMEs. Germany Trade and Invest provides client-oriented economic and industry data, as well as information about calls for proposals in foreign countries, investment and development projects, and legal and customs regulations.²⁸³ The German Chambers also have a worldwide network (German Chambers Abroad, AHK) that provides German SMEs with information about foreign markets.²⁸⁴ Contact with the German Chambers is typically the first step SMEs undertake before exporting.²⁸⁵
- *Assistance in foreign markets.* AHK has about 120 offices in 80 countries. They are mostly independent institutions which earn a major share of their income through the services they provide. The AHK provides SMEs with professional consultation

²⁷⁷ German academic official, interview with USITC staff, April 7, 2010.

²⁷⁸ German industry official, interview with USITC staff, April 9, 2010; Führmann, “SME Promotion in Germany,” July 2002, 20; Government of Germany, FSO, *Statistisches Bundesamt: Foreign Trade*, 2010, 1.

²⁷⁹ So named because management of the guarantees is provided by Euler Hermes Kreditversicherungs-AG (Euler Hermes) and PricewaterhouseCoopers AG WPG. For further information, see Euler Hermes Kreditversicherungs-AG, “Federal Export Credit Guarantees.”

²⁸⁰ Euler Hermes Kreditversicherungs-AG, “Federal Export Credit Guarantees.”

²⁸¹ Führmann, “SME Promotion in Germany,” 2002, 20.

²⁸² Government of Germany, Germany Trade and Invest; German government official, interview with USITC staff, April 7, 2010.

²⁸³ Government of Germany, Germany Trade and Invest, “About Us.”

²⁸⁴ Führmann, “SME Promotion in Germany,” July 2002, 19–20.

²⁸⁵ German government official, interview with USITC staff, April 7, 2010.

and information on external markets. Basic information is free of charge, but detailed analysis and specific individual consulting are fee-based.²⁸⁶ The EC identified AHK as an example of a European best practice in providing high-value information—on such topics as foreign business opportunities, potential partners, foreign business practices, export procedures, import regulations, standards and product specifications, laws and regulations, and marketing requirements—to SMEs.²⁸⁷

- *Support for participation in international trade fairs.* The German government funds the participation of German companies in trade fairs (firms pay their own travel expenses²⁸⁸) for firms that produce products in Germany or that manufacture abroad under German license under the national Foreign Trade Fair Program, the Fair Program for Innovative Companies, and Trade Fair Program of the Federal States.²⁸⁹ According to one source, German SMEs tend to attend trade shows first before seeking assistance from German Chambers of Commerce to finalize trade deals.²⁹⁰
- *The Weltweit aktiv (“Active Worldwide”) foreign trade promotion program.* This program was launched in 2003 by the Ministry of Economics to help German companies enter foreign markets. The program’s main priorities include expanding the number of German Chambers Abroad, improving the range of services offered to German exporters, improving access to trade credit, improving the amount of information and services available through the Internet, and increasing participation in trade fairs.²⁹¹
- *FDI promotion.* Germany uses FDI promotion as a vehicle for promoting German exports. Germany seeks foreign companies interested in investing in Germany as an export platform to the rest of the EU, thereby taking advantage of Germany’s highly developed infrastructure, central location in the EU, pro-business culture, and large high-tech sector. Germany also supports inbound FDI, especially as it relates to firms doing greenfield investment in Germany’s high-tech export-oriented industries.²⁹²
- *Regional initiatives.* German region-based export promotion policies vary widely by region. Each of Germany’s regions has its own development bank to help ensure that SMEs have access to business development loans.²⁹³ In addition, some regions are very active in promoting local exports and attracting investment to their region.²⁹⁴ For example, the German state of Bavaria has an office in New York that sponsors trade fairs and other events to promote the interests of German firms from that state. The Ministry of Economic Affairs and Energy of the state of North

²⁸⁶ EC, *Supporting the Internationalization of SMEs: Good Practice*, 2008, 15.

²⁸⁷ EC, *Supporting the Internationalization of SMEs: Good Practice*, 2008, 13.

²⁸⁸ German government official, interview with USITC staff, April 7, 2010

²⁸⁹ German government official, interview with USITC staff, April 7, 2010; Government of Germany, Ministry of Economics, Federal Office of Economics and Export Control, “Funding for Trade Fairs and Foreign Trade Aid.”

²⁹⁰ German government official, interview with USITC staff, April 9, 2010.

²⁹¹ Government of Germany, Ministry of Economics, “Foreign Trade Campaign.”

²⁹² German government official, interview with USITC staff, April 7, 2010.

²⁹³ German academic official, interview with USITC staff, April 7, 2010.

²⁹⁴ German industry official, interview with USITC staff, April 9, 2010.

Rhine-Westphalia promotes innovation and exporting activities of SMEs from that state.²⁹⁵ Germany also works with other EU countries on a regional basis to promote SME exports within the EU market, as described in box 2.4.

Ireland

Economic Overview

With a GDP of about \$222 billion, Ireland was the 14th largest EU economy in 2009.²⁹⁶ It was ranked as the “freest economy in the Europe region” and fifth worldwide in 2010 by a composite index of economic freedom that included factors such as business freedom, trade freedom, investment freedom, financial freedom, and the protection of property rights. Ireland tied with Luxembourg as offering the greatest investment freedom in the world.²⁹⁷ Limited access to financing, inefficient government bureaucracy, inadequate supply of infrastructure, and restrictive labor regulations were ranked as the most problematic factors for doing business in Ireland in 2009.²⁹⁸

With an economy that is open to international trade and investment, Ireland has become highly integrated into the global economy. Ireland is one of the world’s largest exporters on a per capita basis, reflecting Ireland’s strongly export-oriented manufacturing activity.²⁹⁹ Ireland also has a significant Dublin-based international financial services industry.³⁰⁰ The leading sectors in Ireland’s economy are services (54.6 percent), mining and manufacturing (28.6 percent), construction (13 percent), and agriculture (1.7 percent).³⁰¹ In 2008, Ireland’s leading goods exports were chemicals (26 percent of total manufactured exports by value); medical and pharmaceutical products (19 percent); and office machinery and processing equipment (11 percent). Ireland’s leading services exports in 2008 were computer services (35 percent of total services exports); business services (29 percent) and financial services and insurance (23 percent).³⁰²

The euro is Ireland’s official currency. However, unlike most euro zone countries, Ireland’s main trading partners—the United Kingdom and the United States—are non-euro zone countries. Ireland’s high dependence on non-euro export markets makes euro exchange rate trends an important determinant of Ireland’s trade performance.

²⁹⁵ Government of Germany, Bavarian Ministry for Economic Affairs, Infrastructure, Transport and Technology; Ministry of Economic Affairs and Energy, North Rhine-Westphalia.

²⁹⁶ EIU, *Country Report: Ireland*, 2010, 14.

²⁹⁷ Among all countries, Ireland ranked as the fifth freest. Heritage Foundation, “Ireland,” *2010 Index of Economic Freedom*, 237.

²⁹⁸ World Economic Forum, *The Global Competitiveness Report, 2009–2010: Ireland*, 2009, 174.

²⁹⁹ EIU, *Ireland: Country Profile*, 2008, 29.

³⁰⁰ *Ibid.*, 27.

³⁰¹ Calculated by USITC staff using data from Government of Ireland, Central Statistical Office (CSO), “Output and Value Added” data tables (accessed February 24, 2010).

³⁰² Government of Ireland, Forfás, National Competitiveness Council, *Driving Export Growth*, 2009, 21.

BOX 2.4 Promoting cross-border region-to-region SME exports: The Netherlands–North Rhine-Westphalia INTER-NED program

The Netherlands–North Rhine-Westphalia (Germany) INTER-NED program provides a one-stop shop of comprehensive information and advice for German and Dutch SMEs to support cross-border foreign trade and business relations. The project connects about 20 chambers of commerce, business development organizations, technology centers, and universities on both sides of the border to provide training, market information, and business support services to promote SME cross-border exports between two neighboring and historically linked regions. The EC identified this program as an example of a European best practice in providing cross-border information services to assist SME exporting activities.

Sources: EC, *Supporting the Internationalisation of SMEs*, 2008, 44.

Since 2000, Ireland’s economic growth has been driven by FDI in export-oriented manufacturing and services.³⁰³ The food and beverages sector is the largest in Ireland predominantly made up of Irish-owned enterprises.³⁰⁴ Ireland’s other leading manufacturing industries are predominantly foreign owned.³⁰⁵ In 2006, exports by foreign-owned companies in Ireland were valued at almost €80 billion (\$97 billion), by contrast with exports by Irish companies, valued at about €7 billion (\$8.5 billion).³⁰⁶ Foreign companies exported mainly to euro zone countries (53 percent of total exports), the United States (19 percent), and the United Kingdom (15 percent). Irish-owned companies exported mainly to the United Kingdom (45 percent) and euro zone countries (38 percent), with a significantly smaller share of exports to the United States (8 percent).³⁰⁷

SME Business Environment

SMEs account for approximately 99.5 percent of all enterprises in Ireland, about the same as the EU average (99.8 percent). SMEs in Ireland account for 66.6 percent of national employment, slightly below the EU average (67.1 percent), and 55.6 percent of value added, slightly below the EU average (57.9 percent).³⁰⁸ More than one-half of Ireland’s SME workforce is found in firms employing fewer than 50 people.³⁰⁹

According to a recent EC assessment of the policy environment for SMEs, Ireland ranked above the EU average in the categories of entrepreneurship, responsive administration, finance, internationalization, and skills and innovation. In particular, the EC observed:

- **Entrepreneurship:** Irish citizens were found to have a more favorable attitude toward entrepreneurship and growing a new business. Ireland also was reported to have a significantly higher share of female entrepreneurs than the EU average.

³⁰³ EIU, *Ireland: Country Profile*, 2008, 20–21.

³⁰⁴ Government of Ireland, Forfás, National Competitiveness Council, *Driving Export Growth*, 2009, 9.

³⁰⁵ EIU, *Ireland: Country Profile*, 2008, 18.

³⁰⁶ Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

³⁰⁷ Government of Ireland, Forfás, *Enterprise Statistics at a Glance*, 2009, 34, table 3.6.

³⁰⁸ Based on data for 2004 and 2005. EC, *SBA Fact Sheet: Ireland*, 2008, 1.

³⁰⁹ EC, *SBA Fact Sheet: Ireland*, 2008, 1; Government of Ireland, Department of Finance, “The SME Sector in Ireland: Information Paper,” 2006, 1.

- **Responsive administration:** Starting a business in Ireland took an average of two weeks, compared to an overall average of 20 days for EU countries.
- **Finance:** The interest rate spread for loans in Ireland was the smallest in the EU. Ireland also is characterized by strong legal rights in financial matters and a lower rate of contract payment delays compared to other EU countries.³¹⁰
- **Internationalization:** Despite having a lower share of turnover from exports than many other EU countries, Irish SMEs were found to be internationally more active than the EU average in terms of gaining income from subsidiaries and/or joint ventures abroad and purchasing inputs abroad.³¹¹ According to public and private sector representatives, the small size of Ireland's domestic market makes exporting an especially attractive way for Irish firms to grow.³¹²
- **Skills and innovation:** Ireland reportedly significantly outperformed the EU average in policy areas and in innovation indicators.³¹³ Irish SMEs were found to be more active in Internet-based trade than the EU average.³¹⁴ As discussed in more detail below, Ireland has a specific program that identifies and supports exporting activities by high-potential startup firms.³¹⁵

The Government of Ireland reported that 82 percent of all industrial enterprises (excluding agricultural, construction, and services) in Ireland were small enterprises (SEs),³¹⁶ of which more than half had fewer than 10 employees in 2004, the most recent year for which such data are reported. SEs employed about 53,000 workers of the 235,000 total employed in Ireland's industrial sector in 2004. Almost 95 percent of industrial SEs were Irish owned, while 41 percent of larger industrial enterprises in Ireland were foreign owned in 2004.³¹⁷

The Government of Ireland reported that SEs accounted for 98 percent of all businesses in Ireland's services sector in 2004. SEs employed more than half of all service sector workers³¹⁸ and accounted for more than half of total services sector turnover in 2004.³¹⁹ About 93 percent of services sector SEs were Irish owned, while almost 19 percent of larger services enterprises in Ireland were foreign owned in 2004.³²⁰

³¹⁰ EC, *SBA Fact Sheet: Ireland*, 2008, 2.

³¹¹ EC, *SBA Fact Sheet: Ireland*, 2008, 2.

³¹² Irish public sector official, interview with USITC staff, April 15, 2010; Irish private sector representative, interview with USITC staff, April 15, 2010.

³¹³ *Ibid.*, 2–3.

³¹⁴ Irish private sector representative, Interview with USITC staff, April 15, 2010.

³¹⁵ EI, "Startup Funding."

³¹⁶ The Government of Ireland defines SEs as enterprises employing fewer than 50 individuals. Government of Ireland, Central Statistics Office, *Small Businesses in Ireland*, May 2007, 9.

³¹⁷ Government of Ireland, CSO, *Small Businesses in Ireland*, 2007, 14.

³¹⁸ *Ibid.*, 19.

³¹⁹ *Ibid.*, 20, table 3.3.

³²⁰ *Ibid.*, 37, table 5.4.

SME Exporting Activities

With 11 percent of SMEs engaged in exporting, Ireland ranks above the EU average (8 percent) in SME exporting activity, according to EC survey data.³²¹ However, Irish industrial SEs are generally less export-intensive than larger firms, with SMEs exporting 50 percent of their average turnover versus 85 percent for larger firms.³²² The value of exports by industrial SEs declined from €2.7 billion (\$3.3 billion) in 2000 to €2.1 billion (\$2.6 billion) in 2004, compared to an increase in exports by medium and large industrial enterprises from €69.5 billion (\$85 billion) to €78.7 billion (\$96 billion) during the same period.³²³

Compared to larger firms, Irish industrial SEs shipped a significantly larger share of their exports to the United Kingdom and smaller shares of their exports to euro zone countries and to the United States. SEs shipped 42 percent of their exports to euro zone countries, 40 percent to the UK, and 8 percent to the United States; medium-sized and large enterprises shipped 54 percent of their exports to euro zone countries, 16 percent to the United Kingdom, 14 percent to the United States, and 16 percent to the rest of the world.³²⁴ Because of the strong presence of multinational manufacturing firms in Ireland, it is also highly likely that many Irish SMEs do not export directly but instead supply larger firms which are the ultimate exporters of record.³²⁵ According to the EC, using the standard SME definition, the EU is the main destination of Irish SME exports, with 95 percent going to the EU, 5 percent going outside Europe, and no exports going to non-EU Europe.³²⁶

Exporting Constraints Facing SMEs

The Government of Ireland has conducted a number of studies to assess the international competitiveness of Irish exporting industries. Irish exporting industries generally were reported to have been transformed over the past decade “with a major restructuring towards higher value added activities and knowledge-intensive employment, particularly in services,” although it was noted that “[w]e need to improve our attractiveness to overseas investors and create a business environment that encourages greater entrepreneurship and the development of more innovative, globally-competitive and largely-export focused Irish owned companies.”³²⁷

In an EC report, the most frequently reported constraints to exporting by Irish SMEs were lack of capital (reported by 19 percent of Irish SMEs), lack of knowledge of foreign markets (15 percent), and tariffs in the destination markets (9 percent).³²⁸

³²¹ Based on 2005 data. Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 44.

³²² Government of Ireland, Department of Finance, “The SME Sector in Ireland: Information Paper,” 2006, 4.

³²³ Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

³²⁴ Government of Ireland, CSO, *Small Businesses in Ireland*, 2007, 16, table 2.9 and 17, figure 2.3.

³²⁵ Government of Ireland, Forfás, National Competitiveness Council, *Driving Export Growth*, 2009, 26.

³²⁶ Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 48.

³²⁷ Government of Ireland, Forfás, National Competitiveness Council, *Ireland's Competitiveness Challenge*, 13–14.

³²⁸ Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 53.

Using the most important barriers to SME exporting activities identified by the OECD as a guideline,³²⁹ the Commission identified the following barriers reported by Irish firms:

- **Shortage of capital to finance exports:** A recent EC assessment found that Irish SMEs face greater difficulty than the EU average in finding available venture capital, both at the early and at the expansion stage. In addition, Ireland's share of EC 2007–2013 structural funds allocations for stimulating entrepreneurship and SMEs is smaller than the EU average. The EC also noted that Irish SMEs reported a lower share of turnover from exporting than many other EU countries, indicating a lower degree of internationalization of Irish SMEs.³³⁰

The 2008 Irish Exporters Association (IEA) survey mainly of SEs reported that Irish exporters predominantly used open account credit terms for export payments and that the use of letters of credit was declining.³³¹ (A 2006 IEA survey reported that the use of open account trading reflected the fact that such terms are simple to arrange and avoid fees associated with other payments.³³²) The 2008 IEA survey also found that Irish exporters tended to use their own funds rather than bank financing to finance exports, with banking overdraft facilities the second most used source of export financing. The survey report noted that this was “an important outcome of the survey, in the after-math of the ‘credit crisis’ and the potential tightening of availability of funds from the banks.”³³³

In its 2006 survey, the IEA reported that almost 18 percent of service exporters stated that they had experienced difficulties in obtaining bank financing, and the report noted that the survey results suggested “a strong need for banks to re-look at the way they access and deal with the intangible assets that service exporters deal in.”³³⁴ The 2008 IEA survey reported that 97 percent of Irish exporters reported no problems obtaining funds from banks for financing their business; however, the report noted that “this would appear to indicate that businesses do not go to their banks for funding for export trade.”³³⁵

The IEA surveys appear to indicate a shift in Irish exporters' views of export financing risks. The 2006 survey reported a “surprising and disturbing lack of risk management” by Irish exporters (82 percent of exporters surveyed did not use credit insurance) because they considered it too expensive and too complicated.³³⁶ However, the 2008 survey reported that the use of credit insurance was a “rising trend” and that a “substantial change in attitude” had occurred since the 2006

³²⁹ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 7; OECD, *Removing Barriers to SME Access to International Markets*, 2008, 54.

³³⁰ EC, *SBA Fact Sheet: Ireland*, 2008, 2.

³³¹ *Ibid.*, 18.

³³² IEA, *Export Ireland Survey 2006*, n.d., 27.

³³³ IEA, *Export Ireland Survey 2008*, 2008, 20.

³³⁴ IEA, *Export Ireland Survey 2006*, n.d., 17.

³³⁵ *Ibid.*

³³⁶ The survey noted that “the low level of Export Credit insurance by Irish exporters as shown by the survey is not untypical of that associated with small exporters in other European countries and the USA. However, many of these countries have introduced a special Export Credit insurance scheme for small to medium-sized companies to address the perceived lower utilization levels, the consequent high risk exposure and longer term detrimental effects of potentially fewer small enterprises remaining active in export markets.” IEA, *Export Ireland Survey 2006*, n.d., 27.

survey.³³⁷ Nevertheless, the 2008 survey reported that more than 75 percent of exporters still did not use credit insurance. In addition, the IEA observed that many respondents reported that credit insurance was “not needed” because the firm was managed by a parent group that managed insurance; because the firm was a MNC that only conducted intercompany trade and did not need credit insurance; or because the firm carefully screened its customer base.³³⁸

- **Problems identifying foreign business opportunities:** Sources contacted by the Commission generally did not indicate that this OECD-identified barrier had a significant adverse impact on SME exporting activities in Ireland. However, one private sector representative stated that Irish SME owners or managers lacked extensive exporting experience apart from the English-speaking U.S. and UK markets, and that Irish SME exporters faced significant challenges breaking into the Chinese market. That source also expressed concern about the costs involved in developing new export markets and about Ireland’s apparent overreliance on the UK export market.³³⁹

Other barriers to Irish SME exporting activities identified by the Commission include:

- **Currency fluctuation:** A 2008 IEA survey of primarily Irish-owned SMEs³⁴⁰ found that exchange rate fluctuations ranked among the most important cost factors facing Irish exporters.³⁴¹ Respondents ranked euro fluctuations vis-à-vis the U.S. dollar and the pound sterling as the top barrier for Irish exports to the key U.S. and UK markets.³⁴² Individuals contacted by the Commission during the course of this investigation also identified exchange rate fluctuations as problematic for Irish exporters.³⁴³ As one way of addressing exchange rate fluctuations, exporters reported that they were managing to get U.S. and UK buyers to accept invoicing in euros—effectively transferring the exchange rate uncertainty to the importer.³⁴⁴
- **Low use of public sector support programs:** In its 2008 report, the IEA survey reported that “surprisingly the use of Enterprise Ireland offices and the Irish Embassies abroad is very low, with only 7 percent of businesses stating they use EI offices, and only 1 percent stating they use . . . the embassies when identifying export opportunities. The use of these key state support agencies located in foreign markets has almost halved since the last survey,” suggesting a greater need for government support agencies to promote their services to the Irish business community.³⁴⁵ The survey concluded that Irish exporters “are very mature and tend to mainly identify export sales opportunities using their own marketing efforts.”³⁴⁶ The use of overseas agents and distributors, Internet-based sales, and trade fairs

³³⁷ The IEA noted that it launched “a major campaign to extend the use of credit insurance during 2007.” IEA, *Export Ireland Survey 2008*, 2008, 7, 28.

³³⁸ IEA, *Export Ireland Survey 2008*, 2008, 7.

³³⁹ Irish private sector representative, interview with USITC staff, April 15, 2010.

³⁴⁰ Irish-owned SME exporters made up 78 percent of the survey sample; multinational corporations and large corporations made up 22 percent. IEA, *Export Ireland Survey 2008*, November 2008, 36.

³⁴¹ *Ibid.*, 10.

³⁴² *Ibid.*, 14.

³⁴³ Irish private sector representative, interview with USITC staff, April 15, 2010.

³⁴⁴ *Ibid.*, 16.

³⁴⁵ IEA, *Export Ireland Survey 2008*, November 2008, 33.

³⁴⁶ *Ibid.*

were also important strategies used by Irish exporters.³⁴⁷ The IEA reported that Irish exporters' overall satisfaction rating of government support services has declined since its last survey.³⁴⁸

- **Domestic costs:** In its 2008 survey, the IEA found that labor costs and energy costs were the top-ranking cost factors facing Irish exporters.³⁴⁹ The Irish government reported that the country's exporting industries faced high costs of land, office and factory space, and housing; limited competition in locally traded sectors of the economy, particularly in professional services; high utility costs (especially energy costs and waste disposal charges); fees imposed by local authorities (e.g., for access to utilities); and inadequate credit for local businesses.³⁵⁰ As in many countries, Irish officials viewed the small operating scale of many Irish firms as a significant barrier to exporting.³⁵¹
- **Foreign barriers.** Irish exporters perceived Poland as having the lowest overall barriers to market entry. The United Kingdom and the United States ranked lowest in terms of language and cultural differences as export barriers, while China, Japan, and India ranked highest. With respect to establishing local relationships as a barrier to exports, Irish exporters ranked the United States more favorably than Ireland's leading EU trade partners. However, Irish exporters ranked the U.S. market as presenting more barriers than other leading markets with respect to the scale of business and capital investment required for market entry.³⁵²

National Policies and Programs Supporting SME Exporting Activities

The Government of Ireland provides support for SME exporting activities primarily through the Department of Enterprise, Trade, and Employment (DETE) and agencies under the aegis of DETE, including Enterprise Ireland (EI), Ireland's lead agency for promoting the development of Irish enterprises; Forfás, the national advisory body for enterprise and science; and the Investment and Development Agency (IDA), Ireland's investment promotion agency.³⁵³ The Bord Bia (Irish Food Board), a government agency established to develop markets for Irish food products, also provides services to promote SME exporting activities in the food sector.³⁵⁴ At the local level, Irish county and city enterprise boards conduct pre-export workshops and work to identify SMEs with export potential to graduate to EI assistance.³⁵⁵ Box 2.5 provides an example of one Irish county's support for SME exporting activities.

³⁴⁷ Ibid.

³⁴⁸ IEA, *Export Ireland Survey 2008*, November 2008, 35.

³⁴⁹ Ibid., 10.

³⁵⁰ Government of Ireland, Forfás, National Competitiveness Council, *Ireland's Competitiveness Challenge*, 9; Government of Ireland, Department of Finance, "The SME Sector in Ireland: Information Paper," 2006, 5–6.

³⁵¹ Forfás, National Competitiveness Council, *Driving Export Growth: Statement on Sectoral Competitiveness*, December 2009, 26.

³⁵² Ibid., 14.

³⁵³ Government of Ireland, DETE, "Enterprise, Science and Technology."

³⁵⁴ Bord Bia, "About Us."

³⁵⁵ Government of Ireland, Forfás, *Review of the Role of County and City Enterprise Boards in the Development of Micro-Enterprises*, 2003, 47 and 49.

BOX 2.5 Small exporters in western Ireland go global

The Sligo County Enterprise Board was established to generate sustainable employment in the county. They are doing so by working to develop an enterprise culture, forge multisectoral partnerships, foster economic development, and provide direct financial supports. Support services include:

- Grants towards the cost of purchasing a capital item: Grant assistance may include a portion of refundable aid. The rate is as follows: 50 percent of capital investment, with the maximum capital grant available being €75,000 (\$91,162).
- Employment grants: a one-time contribution towards the salary of an employee in the first year up to €7,500 (\$9,116) towards the creation of a new job in a business.
- Feasibility study and technical assistance grants: A financial contribution towards the cost of investigating the viability of a potential business idea—60 percent (up to €6,350 [\$7,718]) of the cost of undertaking the study.
- Market development fund for small enterprises: 50 percent (up to a maximum of €1500 [\$1,823]) of costs under two programs: (i) trade fair assistance, to enable small producers and services providers to attend and/or exhibit at relevant trade fairs to market their goods and services; and (ii) market visits, to enable promoters to travel abroad specifically for the purpose of making contact with new customers and/or suppliers, in particular to source suppliers within the euro zone.
- The Sligo County Enterprise Board counts among its success stories Gillian Jewellery Design, which sells jewelry in the domestic market and exports to the United States and Canada, and Technical-Ideas.com Ltd., which exports ceramic artwork to the United States and the UK.

Source: Sligo County Enterprise Board (Ireland), <http://www.sligoenterprise.ie/index.html> (accessed May 9, 2010).

Note: Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

As the lead agency for promoting the development of Irish enterprises, EI works extensively with Irish SMEs that have export potential (i.e., are working towards exporting or are currently exporting) and that have at least 10 employees. Firms with fewer than 10 employees work with county or city boards (see box 2.5 for examples of the export promotion activities of Irish county boards). EI activities include export financing, the provision of market information and advice, in-market services, trade missions, and improving managerial skills and capabilities.³⁵⁶

Government financial assistance programs in support of SME exporting activities

EI export financing assistance programs help both new and established SMEs pursue a wide range of activities to improve their viability and international competitiveness. Key activities include:

- The Enterprise Stabilization Fund was established to provide funding to help Irish SMEs survive the current global economic downturn by supporting firms’ efforts to reduce costs and gain sales in overseas markets. The fund was established for firms in the manufacturing and/or internationally traded services sectors determined by EI to have a sustainable and financially viable business plan in the medium term.³⁵⁷

³⁵⁶ Irish government official, interview with USITC staff, April 15, 2010.

³⁵⁷ Government of Ireland, EI, “Enterprise Stabilisation Fund.”

- EI provides funding for SMEs to explore new ideas and new markets, including feasibility studies, assistance towards hiring a business mentor, attendance at trade fairs, and consultancy.³⁵⁸
- EI provides “startup funding” to encourage and support innovation-led, export-focused “high potential start-ups companies.” The goal is to assist firms in developing products, services, or processes that are technologically new or substantially improved when compared to the state of the art in its industry in the EU.³⁵⁹
- The Going Global Fund was established for firms that have successfully established businesses in Ireland and wish to explore opportunities to internationalize their business. Funding under this program aims to help firms evaluate and assess overseas market opportunities; develop plans to localize their current services or product offers for overseas markets; identify suitable channels to international markets; examine possibilities for Web-enabling their service offers for export markets; and undertake foreign market research.³⁶⁰
- The Growth Fund was established to help SMEs improve their export potential.³⁶¹ It funds activities that will lead to a sustainable improvement in productivity within the company. Funding is available to EU-defined SMEs that have been generating sales for at least five years before the date of application.³⁶²

Export promotion programs

EI is a one-stop shop that provides one-on-one advice and assistance to help Irish firms evaluate and enter export markets and to expand international sales. It has a network of 31 offices worldwide to provide in-country assistance to Irish firms.³⁶³

One Irish government official described Irish export promotion policies as one that “picks winners” by supporting firms with high export potential, such as the medical devices sector, with firm-level policies designed to assess if firms are financially, commercially, and technically export ready. EI activities are intended to address issues related to the products or services being offered, along with managerial skills, export strategy, customer pipeline, and funding and investment needs.³⁶⁴ The two main EI export promotion programs for SMEs are:

- A program to improve international competitiveness: EI development advisors work with firms to construct effective business strategies that can develop their competitive advantages, enabling them to grow sales and exports.

³⁵⁸ Ibid.

³⁵⁹ Government of Ireland, EI, “Startup Funding.”

³⁶⁰ Government of Ireland, EI, “Going Global Fund.”

³⁶¹ Government of Ireland, EI, “Growth Fund.”

³⁶² Ibid.

³⁶³ Government of Ireland, EI, “International Offices.”

³⁶⁴ Irish government official, interview with USITC staff, April 15, 2010.

- First Flight program: Helps SMEs that are either new exporters or early stage exports (less than €30,000 [\$36,465] in exports³⁶⁵) by assessing and developing their key export capabilities. Services provided include market research, management training, access to a mentoring network, participation in trade missions, and additional firm-specific assistance. Target markets have included the United Kingdom, China, and North America; programs also have targeted specific sectors, such as clean technologies for the EU and UK markets. The EC identified Ireland's First Flight program as an example of a European best practice in using internationalization to enhance SME competitiveness.³⁶⁶

The Dublin Business Information Center (DBIC) is a private-sector source of export assistance that provides advisory services to SMEs working with EI. The DBIC manages Ireland's Business Enterprise Center, a small business incubator center that works with 60–70 Irish SMEs. The DBIC has a memorandum of understanding with the Emerging Technology Center in Baltimore, Maryland³⁶⁷ to promote job creation in both Dublin and Baltimore by collaborating in the attraction of technology-based companies from their respective countries to open offices in the other's business incubation centers.³⁶⁸

Poland

Economic Overview

With a GDP of about \$442 billion, Poland was the seventh-largest EU economy in 2009.³⁶⁹ Market-oriented economic policies in place since the 1990s, including economic deregulation, lower trade barriers, privatization, and closer ties to the EU, have brought macroeconomic stability, attracted FDI, and made Poland a “frontrunner among European transition countries.”³⁷⁰ Poland has made significant improvements to its business environment, according to a composite index of economic freedom that included factors such as business freedom, trade freedom, investment freedom, financial freedom, and the protection of property rights.³⁷¹ Although Poland's trade policy is the same as that of other EU countries, certain Polish nontariff measures, including the enforcement of intellectual property rights, were cited as problematic for conducting business in Poland. According to one source, Poland's weak legal framework was a disincentive to new business ventures.³⁷² Corruption in Poland was reported to be perceived as “significant.”³⁷³ Other top-rated factors detracting from Poland's business climate included nontransparent tax regulations, limited availability of financing, inefficient

³⁶⁵ Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

³⁶⁶ EC, Directorate-General for Enterprise and Industry, *Supporting the Internationalisation of SMEs: Good Practice*, 2008, 36; Government of Ireland, EI, “First Flight North America.”

³⁶⁷ Irish private sector official, interview with USITC staff, April 15, 2010.

³⁶⁸ Emerging Technology Centers, “Partnerships.”

³⁶⁹ EIU, *Poland Country Report*, 2010, 17.

³⁷⁰ World Bank, “Poland: Country Brief 2010.”

³⁷¹ Among all countries, Poland ranked as the 71st freest economy. Heritage Foundation, “2010 Index of Economic Freedom: Ranking the Countries.”

³⁷² Polish government official, interview with USITC staff, April 7, 2010.

³⁷³ Heritage Foundation, “Poland,” *2010 Index of Economic Freedom*, 345.

government bureaucracy, restrictive labor regulations, and inadequate physical and economic infrastructure.³⁷⁴

Poland became a member of the EU in 2004, but does not currently use the euro as its official currency.³⁷⁵ Poland's economy was not dramatically influenced by the 2008–09 global economic recession, in part because of Poland's relative exclusion from global manufacturing supply chains (see box 2.2 for a discussion of the 2008–09 global recession). Moreover, Poland was reported to be the only EU economy to have escaped recession in 2009 because of the country's large domestic market, limited reliance on exports, and well-capitalized banking system.³⁷⁶

Poland's leading goods export sectors in 2008 were mechanical and electrical equipment (25 percent of exports, by value); vehicles and aircraft (17 percent), primarily motor vehicles, parts, and accessories; metals and minerals (13 percent); and chemicals (12 percent).³⁷⁷ Other EU countries were the primary destination market for Polish exports in 2008 (78 percent of Poland's total exports, by value). Neighboring Germany, Poland's leading export market, accounted for one-third of Poland's EU exports in 2008 and for one-fourth of Poland's total exports. Neighboring Russia, Poland's largest non-EU export market, accounted for 6.5 percent of the total,³⁷⁸ although exports to Russia reportedly have been declining in recent years.³⁷⁹

SME Business Environment

SMEs account for approximately 99.8 percent of all enterprises in Poland, identical to the EU average; micro enterprises accounted for 95.9 percent of Polish enterprises. SMEs contribute 69.8 percent of national employment, above the EU average (67.1 percent), with nearly 40 percent of Polish employment in micro enterprises.³⁸⁰ SMEs in Poland account for only 48.4 percent of total value added, below the EU average (57.9 percent).³⁸¹ According to a recent EC assessment of SME activities, Poland ranked above the EU average in the category of entrepreneurship, but generally ranked below the EU average in the categories of responsive administration, finance, internationalization, and skills and innovation. In particular, the EC observed:

- **Entrepreneurship:** Poland's performance was well above the EU average. Poland ranked particularly high with respect to the participation rate in entrepreneurial education.

³⁷⁴ World Economic Forum, *The Global Competitiveness Report, 2009–2010: Poland*, 2009, 258.

³⁷⁵ Poland's official currency is the zloty. According to the EC, Poland does not have a target date for adopting the euro, but it aims to do so as soon as possible. EC, "Poland and the Euro." Poland's economy would have to meet certain macroeconomic criteria before it could join the euro zone. EIU, *Poland: Country Report*, 2010, 6.

³⁷⁶ IMF, "Poland—Concluding Statement of the 2010 Article IV Consultation," March 15, 2010.

³⁷⁷ Government of Poland, Ministry of Economy, *Poland 2009: Report on Foreign Trade*, 2009, table 13.

³⁷⁸ *Ibid.*, table 11.

³⁷⁹ Polish industry association official, interview with USITC staff, April 7, 2010.

³⁸⁰ According to the EC, micro enterprises have fewer than 10 employees and an annual turnover or balance sheet of less than €2 million (\$2.4 million). Medium-sized enterprises have 50–249 employees with either annual turnover ≤ €50 million (\$61 million) or a balance sheet ≤ €43 million (\$52 million). EC, Directorate-General for Enterprise and Industry, *The New SME Definition: User Guide and Model Declaration*, n.d., 14 and 16. See also table 2.1. Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, "Representative Exchange Rates for Selected Currencies," June 1, 2010.

³⁸¹ Based on data for 2004 and 2005. EC, *SBA Fact Sheet: Poland*, 2008, 1.

- **Responsive administration:** While ranking generally below the EU average, Poland ranked above the EU average with respect to certain business costs (e.g., registering property and enforcing contracts). Poland ranked below the EU average with respect to the costs for closing a business, start-up times and costs, and the availability of e-government.
- **Finance:** Poland ranked below the EU average in this category, particularly with respect to the availability of venture capital.
- **Internationalization:** Poland ranked above the EU average with respect to the share of SMEs gaining income from subsidiaries and/or joint ventures abroad.
- **Skills and innovation:** Poland ranked above the EU average regarding the share of SMEs having new products or income from new products and SMEs' turnover from new or significantly improved products. However, Poland ranked below the EU average on most education—or skills—related indicators in such areas as the share of participants in continuing vocational training.³⁸²

According to Polish Government data, SMEs accounted for nearly 48 percent of Poland's GDP in 2006.³⁸³ Almost 36 percent of Polish SMEs were in the wholesale/retail trade and repairs sector in 2006; 16 percent in the real estate and business services sector; 12 percent in industry; 10 percent in construction; 8 percent in transport and communications; and the remainder in other services.³⁸⁴

New Polish SMEs created during 2001–06 were typically sole proprietorships (94 percent in 2006),³⁸⁵ with a first-year survival rate of about 66 percent.³⁸⁶ More than 39 percent of new Polish SMEs established in 2006 were established by women, reportedly one of the highest rates in Europe.³⁸⁷ Less than 1 percent of Polish SMEs had some reported share of foreign capital investment.³⁸⁸ Polish SMEs typically finance their business operations with their own resources and rarely use bank credits; this pattern is in line with SMEs worldwide, as discussed elsewhere in this report.³⁸⁹

Sources reported that the main competitive advantages of Polish SMEs were Poland's low labor costs vis-à-vis other EU countries; Poland's close proximity to other EU markets, especially the shared border with Germany—an advantage for intra-EU

³⁸² Ibid., 2–3.

³⁸³ Refers to nonagricultural SMEs. All nonagricultural enterprises accounted for about 70 percent of Poland's GDP in 2005 and 2006; the balance of GDP was accounted for by agricultural enterprises and other entities. PARP, *Report on the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 16.

³⁸⁴ PARP, *Report on the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 21, chart 2.4.

³⁸⁵ Ibid., 21.

³⁸⁶ Ibid., 22, table 2.6.

³⁸⁷ Ibid., 25.

³⁸⁸ Ibid., 18, table 2.2, and 47.

³⁸⁹ Government of Poland, Ministry of Economy, *Poland 2009: Report on Foreign Trade*, 2009, 20.

trade;³⁹⁰ and an industrious and multilingual labor force.³⁹¹ Now that more providers have set up international express delivery services in Poland, shipping costs reportedly are declining sharply.³⁹²

SME Exporting Activities

SMEs in Poland are somewhat less likely to participate in cross-border trade than SMEs in other EU countries; only 7 percent exported in 2007, compared to the EU average of 8 percent, according to EC survey data.³⁹³ However, Polish government data show that SMEs are increasingly involved in exporting, with the share of newly established Polish SMEs engaging in exporting increasing from about 3 percent in 2002 to 5 percent in 2004 and to almost 7 percent in 2006.³⁹⁴ One source reported that exporting tends to be done by the medium-sized firms, and that micro-sized SMEs in Poland tend to remain micro-sized and not grow.³⁹⁵ Enterprises with some share of foreign capital increased their export value by more than purely domestic firms.³⁹⁶

According to Polish government data, nearly 16,000 Polish firms exported during 2007–08. Approximately 87 percent of those firms, totaling nearly 14,000, were SMEs. Slightly more than one-half of those exporters (53 percent) were small enterprises, while the remainder were medium-sized.³⁹⁷

By economic sector, the greatest number of Polish SME exporters operate in transport (approximately 20 percent), industry (13 percent), and real estate and business services (10 percent); Polish SMEs are only minimally involved in the export of education, healthcare, or financial intermediation services.³⁹⁸ Polish SMEs ship 74 percent of their exports to other EU countries, 18 percent to non-EU Europe, and 9 percent outside Europe.³⁹⁹ A recent EC assessment found that less than 2 percent of Polish SMEs exported outside the EU, compared to the EU average of almost 4 percent.⁴⁰⁰

With more than 80 percent of Polish exporting activity done through multinationals, one source discussed the importance of programs to promote inbound FDI to ultimately promoting SME exports. Because FDI in Poland typically occurs through mergers and acquisitions or other forms of joint ventures, this source stated that the resulting increase in domestic production ultimately leads to an increase in Polish exports. FDI has particularly benefited Polish SME exports in the motor vehicle and parts sector. To further capture the synergies between FDI and SME exports, the Polish government

³⁹⁰ Polish government official, interview with USITC staff, April 6, 2010.

³⁹¹ Polish government official, interview with USITC staff, April 6, 2010; Polish NGO association official, interview with USITC staff, April 6, 2010.

³⁹² Polish government official, interview with USITC staff, April 6, 2010.

³⁹³ Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 44. See also EC, *SBA Fact Sheet: Poland*, 2008, 3.

³⁹⁴ PARP, *Report in the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 21, chart 2.4.

³⁹⁵ Polish government official, interview with USITC staff, April 7, 2010.

³⁹⁶ PARP, *Report in the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 49.

³⁹⁷ PARP, “Condition of the Small and Medium-Sized Enterprise Sector in Poland,” PowerPoint presentation, slide 15, December 3, 2009.

³⁹⁸ Detailed sector descriptions are not available. PARP, *Report in the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 21, chart 2.4.

³⁹⁹ Gallup, *Observatory of European SMEs, Analytical Report*, 2007, 48.

⁴⁰⁰ EC, *SBA Fact Sheet: Poland*, 2008, 3.

helped set up a Polish Investment Group to promote inbound FDI (mostly in the biotechnology, IT, and accounting services sectors).⁴⁰¹

Exporting Constraints Facing SMEs

The EC reported that the most frequently reported constraints to exporting by Polish SMEs were lack of knowledge of foreign markets (reported by 18 percent of Polish SMEs), lack of capital (16 percent), and different regulations in other EU countries that hinder intra-EU trade (10 percent).⁴⁰²

Using the most important barriers to SME exporting activities identified by the OECD as a guideline,⁴⁰³ the Commission identified the following barriers reported by Polish firms:

- **Shortage of capital to finance exports:** One source reported that the financial needs of Polish SMEs were generally out of alignment with the availability of bank financing.⁴⁰⁴ Another source stated that the Polish government was not demonstrating the strategic vision needed to address SME financing needs.⁴⁰⁵ Trade financing reportedly is not widely available in Poland.⁴⁰⁶ In addition, the lack of availability of venture capital is said to be particularly problematic for Polish SMEs during the early startup phase of new businesses.⁴⁰⁷ Polish SMEs reportedly do not seek bank financing for working capital due to concerns about the cost of loan servicing, about becoming overly reliant on external financing,⁴⁰⁸ and about the ability of the Polish legal system to protect the firm's assets in the event of legal challenges.⁴⁰⁹ Several sources described a “go it alone” mentality they viewed as characterizing many SME owners as one explanation for why Polish SMEs tend not to seek outside financing.⁴¹⁰ Another source stated that the administrative bureaucracy needed to obtain bank financing was too taxing for SMEs.⁴¹¹ However, perhaps reflecting both the tendency of Polish SMEs to finance through their own assets and reports that access to bank credit has improved in recent years,⁴¹² access to financing did not rank as the leading constraint facing Polish SMEs.⁴¹³
- **Problems identifying foreign business opportunities:** Polish SMEs have historically not been integrated into global supply chains, limiting their ability to

⁴⁰¹ Polish academic official, interview with USITC staff, April 6, 2010.

⁴⁰² Gallup, *Observatory of European SMEs: Analytical Report*, 2007, 53.

⁴⁰³ OECD, *Top Barriers and Drivers to SME Internationalisation*, 2009, 7; OECD, *Removing Barriers to SME Access to International Markets*, 2008, 54.

⁴⁰⁴ Klonowski, *Innovation in the Polish SME Sector*, 2009, 30.

⁴⁰⁵ Polish industry association official, interview with USITC staff, April 7, 2010.

⁴⁰⁶ Polish government official, interview with USITC staff, April 6, 2010; Polish government official, interview with USITC staff, April 6, 2010.

⁴⁰⁷ Based on data for 2004 and 2005. EC, *SBA Fact Sheet: Poland*, 2008, 2–3.

⁴⁰⁸ Government of Poland, Ministry of Economy, *Entrepreneurship in Poland*, 2009, 46.

⁴⁰⁹ Polish industry association official, interview with USITC staff, April 7, 2010.

⁴¹⁰ Polish government official, interview with USITC staff, April 7, 2010; Polish government official, interview with USITC staff, April 7, 2010.

⁴¹¹ Polish academic official, interview with USITC staff, April 6, 2010.

⁴¹² Recent reforms reportedly have significantly improved access to credit in Poland. World Bank, *Doing Business 2010*, 2009, 142.

⁴¹³ PARP, *Report in the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 24; and Ministry of Economy, *Entrepreneurship in Poland*, 2009, 46.

sell to multinational companies. This was reported to be changing. In the motor vehicle sector, for example, General Motors reportedly has 20 subcontractors in Poland producing spare parts. In the information technology sector, Dell has recently moved all production of its computer systems for customers in Europe, the Middle East, and Africa from Ireland to Poland.⁴¹⁴

- **Limited information to locate and analyze markets:** Polish SMEs generally find it hard to access data on foreign markets.⁴¹⁵ According to one source, Polish SMEs know little about foreign markets and about customs duties in non-EU trading partners.⁴¹⁶ Polish sources generally considered foreign market information a significant deficiency.⁴¹⁷
- **Inability to contact potential foreign customers:** One source recommended the creation of “a comprehensive system to promote the Polish economy . . . to support operations of Polish enterprises abroad and attract foreign investments to Poland.”⁴¹⁸
- **Lack of managerial time, skill, and knowledge:** According to one source, one possible reason for the low use of outside financing in Poland is the lack of managerial experience with bank financing.⁴¹⁹ Another key concern raised by the SMEs in Poland related to the quality of the technical assistance offered by government administrative and technical advisors and the bureaucratic nature of the government support programs, particularly with respect to advice about obtaining financing and developing a business plan. More than 70 percent of Polish SMEs surveyed for a recent study reported “inadequate awareness” of Polish government support programs for SMEs.⁴²⁰ General export skills among entrepreneurs in Poland, while improving, remain relatively low.⁴²¹ Despite its multilingual labor force, Polish entrepreneurs were still generally unfamiliar with foreign legal terminology and business practices.⁴²²

Other barriers to Polish SME exporting activities identified by the Commission include:

- **Low global competitiveness:** Various Polish government reports rank the lack of strong price competition as the most significant factor inhibiting the economic growth of Polish SMEs. Polish SMEs even reported facing difficulties maintaining profitability in the domestic market, reflecting the country’s limited market size. Polish SMEs reportedly focused on maintaining their current position in the domestic market and generally showed “limited knowledge concerning the competitive environment and their own competitive potential in comparison with other enterprises.”⁴²³ Another source stated that SMEs owned by younger generations were more globally focused, while firms owned by older generations,

⁴¹⁴ Polish nongovernmental organization (NGO) official, interview with USITC staff, April 6, 2010.

⁴¹⁵ Klonowski, *Innovation in the Polish SME Sector*, 2009, 43; Polish academic official, interview with USITC staff, April 6, 2010.

⁴¹⁶ Polish NGO association official, interview with USITC staff, April 6, 2010.

⁴¹⁷ Polish industry association official, interview with USITC staff, April 6, 2010.

⁴¹⁸ Government of Poland, Ministry of Economy, *Entrepreneurship in Poland*, 2009, 11.

⁴¹⁹ Polish government official, interview with USITC staff, April 7, 2010.

⁴²⁰ Klonowski, *Innovation in the Polish SME Sector*, 2009, 40, 43.

⁴²¹ Polish government official, interview with USITC staff, April 6, 2010.

⁴²² Polish industry association official, interview with USITC staff, April 7, 2010.

⁴²³ PARP, *Report in the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 171, 173.

to the extent that they export, export to culturally similar markets such as the Czech Republic, Hungary, Romania, and Bulgaria, rather than to larger EU markets.⁴²⁴ One source stated that the “Made in Poland” brand is not well known globally, and the Polish SMEs need help with trade shows and trade promotion in general to elevate their visibility.⁴²⁵ One source questioned whether Polish SMEs’ growing dependence on government support ultimately would make them less globally competitive.⁴²⁶

- **Limited innovation:** The disinclination of Polish SMEs to engage in R&D contributes to the relatively low global competitiveness of Polish firms vis-à-vis other EU countries. While improving in recent years, Poland ranked below the EU average in terms of an overall innovation index.⁴²⁷ Several indicators show Poland to lag significantly behind other EU countries in R&D expenditures or other measures of innovation.⁴²⁸ According to Polish government data, more than three-fourths of Polish SMEs were reported to conduct no activities to develop new or significantly enhanced products or services. One-half of Polish SMEs reported undertaking no capital investment expenditures, reflecting both limited capital available for development as well as the perceived lack of need to invest in new technologies that could enhance their competitiveness.⁴²⁹ However, some sources stated that Poland often does not get credit for innovation within its borders because leading innovation centers are foreign-owned.⁴³⁰
- **Difficulties meeting international technical standards:** According to Polish government data, only 10 percent of SMEs have products that qualify as meeting standards such as those set by the International Organization of Standards (ISO).⁴³¹ To address this barrier to exporting, the Polish government established a grant plan to help SMEs obtain the product certification required to export to certain markets. The grant covers 50 percent of the certification process costs up to €13,000 (\$15,801) per firm,⁴³² and covers such costs as consultancy fees, preparation and translation of technical documents required by the foreign certifying body, transportation and insurance of samples and technical documents to the certifying body, the certification procedure, and obtaining and issuing the certificate. Grants are only available for exports to non-EU markets, but this help is important for Poland, which counts non-EU countries such as Russia, Belarus, and Ukraine as traditional export markets. The EC identified Poland’s grants program for product certification as an example of a European best practice of using internationalization to enhance SME competitiveness.⁴³³ Poland also has an export certification

⁴²⁴ Polish academic official, interview with USITC staff, April 6, 2010.

⁴²⁵ Polish NGO association official, interview with USITC staff, April 6, 2010.

⁴²⁶ Polish academic official, interview with USITC staff, April 6, 2010.

⁴²⁷ Government of Poland, Ministry of Economy, *Entrepreneurship in Poland*, 2009, 46.

⁴²⁸ PARP, *Report in the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 214.

⁴²⁹ *Ibid.*, 171, 175.

⁴³⁰ Polish industry association official, interview with USITC staff, April 6, 2010; Polish industry association official, interview with USITC staff, April 7, 2010.

⁴³¹ PARP, *Report in the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 181.

⁴³² Based on an exchange rate of \$1.00 = €0.8227 as of June 1, 2010. IMF, “Representative Exchange Rates for Selected Currencies,” June 1, 2010.

⁴³³ EC, *Supporting the Internationalisation of SMEs: Good Practice Selection*, 2008, 34.

assistance program to help SMEs with the administrative and legal requirements for export to EU markets.⁴³⁴

- **Other constraints:** Two sources reported that exchange rate volatility of the Polish currency (the zloty) was problematic for Polish exporters.⁴³⁵ According to one source, political uncertainty about relations with Russia, Poland's second-largest trade partner, was a constraint to that bilateral trading relationship.⁴³⁶

National Policies and Programs Supporting SME Exporting Activities

Poland provides a broad range of programs to support SMEs and SME export activities, but faces a significant roadblock: a lack of public awareness of these programs. Five ministries and about 350 government-sponsored public and private institutions and agencies are active in developing and offering programs aimed at supporting SMEs in Poland. The vast majority of these programs are offered by the Ministry of Economy and managed by the Poland Agency for Enterprise Development (PARP).⁴³⁷ Additional support for Polish SMEs is provided at the regional level and funded by the Ministry of Economy and the EC,⁴³⁸ although several sources reported that regional programs were not well funded and of limited effectiveness.⁴³⁹ However, Polish sources reported that SMEs often find EC programs more helpful because they typically are better funded and more focused than Polish government programs.⁴⁴⁰

Government financial assistance programs in support of SME exporting activities

Direct government support to promote Polish SME exporting activities includes an emphasis on export credit assistance:

- Poland's Ministry of Finance administers a system to provide export credits. Export credit insurance and guarantees are provided by the Export Credits Insurance Corporation (KUKI).⁴⁴¹
- The National Economy Bank⁴⁴² administers a program that provides interest subsidies on export credits for exporters and importers to help lower the interest rates on loans made to SMEs.⁴⁴³
- PARP's role is to stimulate the development of entrepreneurship and innovation in Poland's SMEs abroad as well, chiefly through grant programs.⁴⁴⁴ The focus of

⁴³⁴ Polish government official, interview with USITC staff, April 6, 2010.

⁴³⁵ Polish government official, interview with USITC staff, April 6, 2010; Polish NGO association official, interview with USITC staff, April 6, 2010.

⁴³⁶ Polish government official, interview with USITC staff, April 6, 2010; Polish industry association official, interview with USITC staff, April 7, 2010.

⁴³⁷ Polska Agencja Rozwoju Przedsiębiorczości (PARP).

⁴³⁸ Polish government official, interview with USITC staff, April 6, 2010.

⁴³⁹ Government of Poland, Ministry of Economy, *Entrepreneurship in Poland*, 2009, 103.

⁴⁴⁰ Polish government official, interview with USITC staff, April 6, 2010.

⁴⁴¹ Korporacja Ubezpieczeń Kredytów Eksportowych (KUKI) S.A.

⁴⁴² Bank Gospodarstwa Krajowego (BGK).

⁴⁴³ Ministry of Finance, "Forms of Official Financial Export Support in Poland," 2008; Ministry of Economy, *Entrepreneurship in Poland*, 2009, 11; Polish government official, interview with USITC staff, April 7, 2010.

⁴⁴⁴ PARP, *Report on the Condition of the Small and Medium-Sized Enterprise Sector*, 2008, 193.

PARP is primarily on domestic economic development, although many of its programs are designed to enhance the competitiveness of Polish industries. PARP also has programs specifically designed to increase SME exports.⁴⁴⁵ Key export-related programs offered by PARP include:

- Direct financial support for enterprises to help improve the competitiveness of Polish SMEs vis-à-vis the EU single market.⁴⁴⁶ Because of the precarious financial state of many Polish SMEs, one Polish official stated that grant programs were most effective such as the Passport to Export program described below.⁴⁴⁷

Export promotion programs

Examples of programs to promote exporting activities by Polish SMEs include efforts by the Ministry of Economy, Polish embassies, the Polish Chamber of Commerce, and the EC:

- The Ministry of Economics provides export promotion and export certification assistance (largely directed at exports to the EU market). The Foreign Trade section of the Ministry of the Economy provides information about foreign markets on its website.⁴⁴⁸ The Ministry of Economics offers funding to promote exports under the EU's de minimis aid scheme,⁴⁴⁹ including sector-specific promotional efforts and certification, promotional publications, and export support ventures; ministry awards; and sponsorship.
- The National SME Service Network (KSU) is a national network of centers under the Ministry of Economics that provides services to support SMEs to support the development of SME exporting activity.⁴⁵⁰ The EC identified KSU as an example of a European best practice in making public administration responsive to SME needs.⁴⁵¹
- "Passport to Export" program is a grant program to help Polish SMEs develop an export plan. The program covers the costs of export-related advisory services to help Polish SMEs develop marketing plans and to obtain trade financing, search for trade partners, and participate in trade fairs and foreign trade missions. The program is funded by Poland's Ministry of Economy with EC co-financing.⁴⁵²

⁴⁴⁵ Ministry of Economy, *Entrepreneurship in Poland*, 2009, 103.

⁴⁴⁶ Ministry of Economy, *Entrepreneurship in Poland*, 2009, 46–47, 194–197.

⁴⁴⁷ Polish government official, interview with USITC staff, April 7, 2010.

⁴⁴⁸ Polish government official, interview with USITC staff, April 6, 2010.

⁴⁴⁹ Article 88(3) of the treaty establishing the European Community requires state aid to be notified to the European Commission so that it can assess whether the aid is compatible with the common market. The de minimis rule was introduced in order to exempt small aid amounts. It sets a ceiling below which aid is deemed not to fall within the scope of Article 87(1) and is therefore exempt from the notification requirement laid down in Article 88(3). EC, "Summaries of EU Legislation: De minimis Aid," March 16, 2007.

⁴⁵⁰ PARP, "National Small and Medium-sized Services Network." n.d.

⁴⁵¹ EC, *Communication: A "Small Business Act" for Europe*, 2008, 20.

⁴⁵² Polish Information and Foreign Investment Agency, "Passport to Export"; Polish government official, interview with USITC staff, April 6, 2010.

- PARP supports the establishment of exporter assistance centers (IEACs) throughout Poland to provide free export-related assistance, and fee-based consultancy services.⁴⁵³
- Trade specialists at Polish embassies provide foreign market information and counseling services to Polish exporters. Embassies also provide business matchmaking services, organize trade promotional events, and facilitate a firm's entry into a particular foreign market.⁴⁵⁴
- The Polish Chamber of Commerce's foreign cooperation office also helps firms doing business outside Poland. In addition, the chamber has a separate specialist business unit providing comprehensive support for promoting foreign trade, particularly export drives relating to eastern markets.⁴⁵⁵
- PARP also cooperates with other EU member countries to improve the domestic business climate and promote export opportunities for Polish SMEs. Two such cooperation programs, Sweden and Switzerland, are described in box 2.6.
- An EC-financed Internet portal offered by the Polish Institute for Market, Consumption and Business Cycles Research provides foreign market information for Polish exporters.⁴⁵⁶

BOX 2.6 Sweden and Switzerland support Polish SME exporters

The Swedish government, through the Swedish Trade Council and the Association of Swedish Chambers of Commerce, has established a Marketplace Baltic Region to promote and facilitate trade within the region for SMEs in Estonia, Kaliningrad (a Russian enclave between Poland and Lithuania), Latvia, Lithuania, Poland, Russia, Ukraine, and Sweden itself. Its goal is to promote exports to Sweden, set up a cost-free help desk to provide advice, market information, importer contact information, and answers to questions related to Swedish import rules and procedures. The EC identified the Marketplace Baltic Region program as an example of a European best practice in cross-border cooperation.

The Swiss-Polish Cooperation Program is part of a Swiss grant aid program provided to Poland and nine other countries that joined the EU in 2004. The goal of the program is to help reduce economic and social disparities between Poland and the more advanced EU countries and, within Poland, to help reduce the economic and social disparities between the main cities and the structurally weaker peripheral regions. Among other things, funding was provided to support the improvement of the business environment and access to finance for Polish SMEs in general and export-oriented SMEs in particular through expansion of IEACs.

Sources: EC, *Supporting the Internationalisation of SMEs: Good Practice*, 2008, 41; Government of Poland, Ministry of Economy, *Instruments for Internationalization of Business Activity*, 2009; Government of Poland, Ministry of Regional Development, *Swiss-Polish Cooperation Program*.

⁴⁵³ Ibid.

⁴⁵⁴ EC, *Communication: A "Small Business Act" for Europe*, 2008, 20; Polish government official, interview with USITC staff, April 6, 2010.

⁴⁵⁵ EC, "Doing Business Outside the EU: Poland," September 2009.

⁴⁵⁶ Ibid.

CHAPTER 3

Views of U.S. SMEs on Barriers to Exporting and Strategies to Overcome those Barriers

Introduction

This chapter describes the most significant barriers to exporting noted by U.S. small and medium-sized enterprises (SMEs), as well as the strategies that these enterprises reported as effective in overcoming such barriers. It also summarizes suggestions to increase SME exports that SME representatives offered in the course of the investigation. To gather this information, the Commission conducted extensive fieldwork, holding discussions with more than 260 small businesses, large firms, and trade organizations representing a wide variety of industries.¹ The Commission also solicited information from all interested parties at three public hearings,² through written testimony, and in telephone interviews with firms and associations around the United States. The information presented in this chapter reflects the views of SME representatives and corroborating this information was beyond the scope of this study.

These organizations represented industries across the agriculture, manufacturing, and service sectors. The Commission found that many barriers to SME exports are similar across sectors, but the strategies that SMEs use to overcome those barriers often vary from one sector to the next. SMEs reported to the Commission on a number of export barriers that seem to confront them across industries, as summarized in table 3.1.

The key findings presented in this chapter are followed in chapter 4 by a close examination of (1) the specific barriers to exports in seven industries where SMEs are important competitors, and (2) the strategies used by SMEs in those industries to overcome export barriers.

Domestic Barriers to SME Exporting

Domestic barriers to exports include constraints of U.S. origin related either to limited access to finance, problematic U.S. government laws and regulations, high transport costs, the small scale of SME production, or the small size of the exporting firms.

Access to Finance

Many SMEs reported limited access to finance as a significant barrier to exports. This concern has two facets: limited availability of trade finance, and limited access to sufficient working capital for business operations. Trade finance, which is an essential component of export transactions, ensures that exporters receive payment for their goods shipped overseas. By contrast, access to sufficient working capital is essential for conducting daily operations and expanding into new business areas such as exporting.

¹ These discussions included both individual meetings and roundtable discussions involving multiple firms.

² The Commission held public hearings in St. Louis, MO, on March 10, 2010; in Portland, OR, on March 12, 2010; and in Washington, DC, on March 18, 2010.

TABLE 3.1 Barriers to SME exports and suggested strategies and recommendations to overcome those barriers

| | |
|--|--|
| Domestic barriers | <ul style="list-style-type: none">• Limited access to finance, including both trade finance and working capital• Certain problematic U.S. government regulations, particularly export controls and visas for foreigners to visit the United States• High transport costs• Small scale of SME production |
| Foreign barriers | <ul style="list-style-type: none">• Costly and nontransparent foreign government regulations• Language and cultural barriers• Inadequate knowledge of foreign markets, including the ability of SMEs to hire staff to acquire such foreign market knowledge• Limited information to locate or analyze foreign markets^a• Inability to contact potential overseas customers^a |
| Suggested strategies | <ul style="list-style-type: none">• Pool resources with other small firms through trade associations or less formal coalitions• Collaborate with large firms• Take advantage of government programs designated to help exporters• Take advantage of favorable regulatory structures in certain countries• Focus on opportunities arising from social networking• Construct specialized pricing models |
| SMEs' recommendations for government policies | <ul style="list-style-type: none">• Negotiate additional trade agreements• Devote additional resources to enforcing existing agreements• Help SMEs with market access problems (particularly in India and China)• Provide SMEs with more information and education on export opportunities in foreign markets• Streamline and reform U.S. regulations (particularly those related to export control and visa applications) |

Sources: Hearing testimony, written submissions, e-mails, and interviews (in person and by phone) with Commission staff.

^aResults are similar to the findings of a recent OECD study titled "Top Barriers and Drivers to SME Internationalization," 2009, summarized in chapter 2.

Trade Finance

The ability to finance sales to foreign buyers can have a significant impact on exporting, with foreign buyers often choosing suppliers that can provide financing over those that cannot. SME exporters often find themselves competing against larger enterprises that are able to finance sales to foreign customers, as well as foreign suppliers that have access to government-provided financing.³ As several SME representatives noted, it is often difficult for SMEs to get bank financing that is appropriate for international activities.

³ USITC, hearing transcript, March 10, 2010, 158 (testimony of Thomas Dustman, Sunnen Products); industry representatives, telephone interviews by USITC staff, December 2009–March 2010.

Many banks set minimum size limits for international transactions.⁴ And while large banks may not be interested in handling SMEs' relatively low-volume business, SMEs reported that it is almost impossible to find medium-sized and smaller banks that are willing to accept international receivables as collateral for a loan, a practice that is common for large banks.⁵ One SME representative described her company's financing situation as follows:

There seems to be sort of a Catch-22 situation that goes on. We have wonderful local banking relationships that have been really supportive of our growth. They are, however, smaller local banks that are not dialed in for international trade. They don't handle letters of credit. They don't handle any of the apparatus we need to do business with. . . . They don't necessarily have the relationships with, for instance, Ex-Im [the Export-Import Bank]. So they send us to a larger bank that does have the relationship with Ex-Im. The larger bank then says, gee, that's really great. And you know what? You're way too small. We want you to go talk to a broker. So we went and we talked to the broker. And the broker says, hey, this is a totally great program, and you know what, you might even be too small for me. And . . . that's why I say conceptually, the tools are exactly right. . . . But maybe the service provider network . . . is not incented to reach far enough down to these kinds of transactions, either on the loan or on the insurance side.⁶

In making their purchasing decisions, foreign buyers will frequently choose suppliers that are able to extend credit, rather than those that require cash on delivery.⁷ However, owing to their small size and limited financial capabilities, many SMEs are unable or unwilling to extend credit to unfamiliar foreign buyers. SME executives also stated that banks are often unwilling to extend credit to finance their exports, or do so only at a high rate of interest, because lending institutions view SMEs as higher risk in comparison to larger, more diversified firms.

SMEs also cited their difficulty in collecting foreign receivables as a major constraint to exporting. For example, some SMEs have lost business because banks and export credit agencies refuse to extend credit based on foreign receivables.⁸ Representatives of SMEs in several industries also noted that payment terms tend to be longer when dealing with exports. For example, SMEs in the textiles industry generally receive payments for domestic sales within 30 days, but payments for foreign sales typically take 90–100 days, and the longer payment terms are reportedly difficult for a small company with limited working capital to handle. This longer payment cycle reportedly is another factor that makes it more difficult for SMEs to obtain financing from domestic banks or the Ex-Im Bank.⁹ Another SME representative explained the situation as follows:

⁴ Air Tractor, Inc., written testimony to the USITC, March 25, 2010.

⁵ USITC, hearing transcript, March 12, 2010, 48–49, 101–105 (testimony of Ann Bunnenberg, Electrical Geodesics, Inc., and Frank Monfared, Business Solutions Group Corp.).

⁶ USITC, hearing transcript, March 12, 2010, 104–105 (testimony of Ann Bunnenberg, Electrical Geodesics, Inc.).

⁷ Industry representative, interview by USITC staff, March 9, 2010.

⁸ Industry representatives, interviews by USITC staff, January–March, 2010; Bieri, written testimony to the USITC, February 9, 2010. One source stated that credit insurance, one tool designed to offset concerns about foreign receivables, is not frequently used in the United States.

⁹ Industry officials, telephone interviews by USITC staff, February 17 and 23, 2010; Bieri, written testimony to the USITC, January 29, 2010; and industry representative, telephone interview by Commission staff, February 23, 2010.

During the credit crisis of 2008–09, U.S. banks have strongly reduced lending to Central American banks. Those banks, in turn, have cut their lending or reduced it to their customers, who are our customers. What has made this situation worse is the fact that our customer’s customer, the U.S. retailers, demanded extended payment terms, in some cases going from payment in 30 days to payment in 100 days. As one can imagine, this can put a company in very serious trouble—cutting the lending on one end and getting paid much later on the other end. If we did want to continue business, we had to take the role of the lender to our customer, giving them extended terms, this at a time [when] our own lenders have become more stringent in their lending to us. The U.S. Ex-Im Bank has in many cases withdrawn their credit guarantees to us for certain of our customers. So not only did we have to extend terms in which we get paid, but also at the same time losing the credit protection. We have not been able to work with the SBA [Small Business Administration] and Ex-Im Bank to resolve the issue, as we have been told we are exceeding the \$5 million export limit under which the SBA can lend to us. [This] has increased our risk substantially, as we had to increase our terms, which in turn has led to higher interest rates from our domestic bank, as well as more stringent covenants in our loan agreements with our bank.¹⁰

Trade financing has historically been an issue for SMEs, but several firms reported that loans, including SBA-guaranteed loans, have been even more difficult to obtain since the beginning of the recent economic downturn.¹¹ Companies have also cited limitations on available Ex-Im Bank financing. These include problems obtaining financing for projects related to steel or military sales;¹² a lack of communication between parties to a financing transaction, including the SME, Ex-Im Bank brokers, the Ex-Im Bank, the U.S. Commercial Service (USCS), and the SBA; the perception among SMEs that Ex-Im Bank favors larger companies over smaller ones; and slow Ex-Im Bank approval times.¹³ A number of small companies reported that their transactions are often too small to be approved by Ex-Im Bank. Even if they receive approval, it is difficult to find a lender willing to go through the Ex-Im Bank process and paperwork for a small transaction, leading SMEs to prefer exporting to customers that can provide advance payment or letters of credit.¹⁴

Working Capital

Even though the need for working capital is not directly tied to exports, it remains one of the most important concerns for SMEs. Firms that are unable to finance daily operations or domestic growth are also unlikely to expand their exports. There have been press reports of manufacturing SMEs forced to close because of shortfalls in working capital due to late receipt of payment for receivables.¹⁵ In the case of the service sector, many SMEs are young companies that are not able to qualify for bank financing because they

¹⁰ Bieri, written testimony to the USITC, February 9, 2010, 2–3.

¹¹ Moreover, with little access to commercial lending, existing lines of credit are very important to companies. Industry representatives, interviews with USITC staff, Boston, MA, March 1–3, 2010.

¹² Industry representatives, interviews by USITC staff, North Carolina, January 25–28, 2010.

¹³ Vander Meer, written testimony to the USITC, January 26, 2010.

¹⁴ National Association of Manufacturers, written testimony to the USITC, March 25, 2010.

¹⁵ E.g., Maher, “Tool Firms Seek Aid from U.S. Loan Plan” March 20–21, 2010, A1. Maher reports that machining SMEs, in an effort to offset such shortfalls, are not only seeking a \$30 billion loan program financed by the Troubled Asset Relief Program, but are also expected to approach a major customer—General Motors—to seek progressive payment terms subject to specific milestones.

cannot provide three years of financial records. In addition, the nature of service sector firms is such that they do not have factory-like assets to serve as collateral. These issues have been even more prominent in the current economic downturn.¹⁶ One international development consultancy firm, which exports services that are reimbursed through World Bank and U.S. Agency for International Development contracts in Africa, notes that its difficulties in attracting working capital loans from banks or private investors have specifically prevented it from bidding on new contracts and thus increasing its total exports. The company, Kwaplah International, Inc., attributes the banks' reluctance to the firm's business focus on Africa and its work on United Nations peacekeeping missions, which banks perceive as risky operations even though the company has a solid record and has risk mitigation processes in place. Kwaplah's CEO estimates that he could increase the firm's revenue by a factor of four or five each year, given sufficient working capital.¹⁷ Firms in the computer services and medical devices industries face particular constraints on access to working capital, as outlined in the case studies in chapter 4.

U.S. Domestic Laws and Regulations

SMEs in many sectors have reported that U.S. federal and state laws and regulations may also serve as barriers to exporting. Examples cited by SMEs include U.S. export control laws and visa regulations. For example, government approaches to addressing new products, such as nanomaterials, under the export control regime have a significant impact on SMEs involved in chemicals, medical devices, and nanotechnology.¹⁸ Domestic textiles and apparel SMEs also noted that they must comply with U.S. regulations that are often more costly to implement than those of their counterparts abroad.¹⁹ Computer services companies also cited examples of barriers to exports from export control regulations. Further information specific to those industries is highlighted in the industry case studies in chapter 4.

Export Controls

The U.S. Government maintains a series of export control regulations that limit exports of specific goods and services to specific countries. Products subject to export control regulations are considered to be either "dual-use" products—e.g., products with both a commercial and a military application subject to Export Administration Regulations (EAR)—or products intended for military use regulated under the International Traffic in Arms Regulations (ITAR). These regulations are administered by several agencies, including the Department of Commerce and the Department of State. Box 4.1 in chapter 4 provides more detailed information on the regulations and their impact on certain high-technology companies.

Although U.S. companies generally agree that such controls are necessary, the paperwork and logistics are considered cumbersome, and many companies are concerned about accidentally violating the regulations. Companies also expressed concern that too many federal government agencies are involved and that the lines of authority between them are not clear. In addition, they stated that the U.S. practice of requiring licenses for particular components, rather than for integrated weapons systems or other final products, makes U.S. producers less competitive vis-à-vis foreign companies subject to export

¹⁶ Industry representative, interview by USITC staff, New York, NY, February 18, 2010.

¹⁷ Mahn, written testimony to the USITC, received April 1, 2010.

¹⁸ Industry representatives, interviews by Commission staff, January–March, 2010.

¹⁹ Kay, written testimony to the USITC; industry official, telephone interview by USITC staff, February 23, 2010.

controls for similar products. Finally, they reported that the cumbersome nature of the process and the list of products subject to export control regulations are poorly adapted to changing technologies, so that it takes too long for items to be removed from the lists when they no longer pose a threat.²⁰ As noted by one SME representative, the answers to the following list of questions are not easy to find:

- “How do we complete a Shippers Export Declaration?”
- “Do I need to register with the U.S. government as an exporter? Does my product need a validated export license? How can I find out? What is the difference between an export license from the Department of Commerce and from the Department of State? What is the difference between Export Administration Regulations and International Traffic and Arms Regulations? If I ship items to one country and someone else there ships them to an embargoed country, is that my problem? What is an end-user certificate?”
- “What is a Schedule B number? What is it used for? What is an Export Commodity “Control Number?”
- “Am I the exporter or is Federal Express, DHL or the freight forwarder the exporter? What documents are needed by U.S. Customs for exporting? What documents are needed by the importing country to easily clear customs upon arrival?”
- “Finally, who can I contact to obtain answers to all of these questions?”²¹

In the representative’s words, “In my opinion, if the U.S. government wants to increase exports, then we need to find a way to simplify export transactions.”²²

SME representatives cited a wide range of “challenges” related to export control regulations, including:

- the need to hire experts to stay current on export control regulations.
- the possibility of shipments delayed at Customs because a license is needed.
- the length of time needed to obtain licenses and pay license fees for each product and for each customer, including annual renewals.
- an inability to obtain clear and concise compliance information from a single source within the U.S. government.
- the need for SMEs to maintain information regarding the ultimate end user of their products to avoid liability issues, even when they have obtained the required licenses.
- the need to consult lists of domestic and foreign parties with whom an exporter cannot conduct business. These lists are maintained by several U.S. government agencies and include the Denied Parties List, the Debarred Parties List, and the list of Specially Designated Foreign Nationals, along with listings promulgated under the Foreign Narcotics Kingpin Designation Act. Shipping to or having a business

²⁰ USITC, hearing transcript, March 18, 2010, 92 (testimony of Peter Dent, Electron Energy Corporation); bullets in original.

²¹ USITC, hearing transcript, March 10, 2010, 188–189 (testimony of Stephen Mitchell, Magna Technologies, Inc.).

²² USITC, hearing transcript, March 10, 2010, 188–189 (testimony of Stephen Mitchell, Magna Technologies, Inc.).

relationship with any of these parties will result in a violation. In addition, the Department of Treasury Office of Foreign Assets Control enforces embargoes against certain countries or parties in those countries.²³

For example, Zoltek Corporation, a manufacturer of advanced carbon fibers based in Bridgeton, MO, also has a manufacturing facility in Hungary. The export of carbon fibers requires a license in both the United States and Hungary, but Zoltek pointed out that in most cases, the process of obtaining such licenses is substantially faster and easier in Hungary than in the United States. For this reason, to fill orders for most countries for which an U.S. export license would be required, Zoltek ships the product from its Hungarian manufacturing facility. The company reported that the processing time for an export license averages one week in Hungary, compared to 35–45 days in the United States. In addition, one Hungarian export license covers global exports, whereas U.S. exports of the same goods require separate licenses for each destination country, and also require significantly more paperwork. In addition, Zoltek noted that U.S. export licenses are required to ship to China, India, Taiwan, and Turkey—all countries that produce carbon fibers domestically. They have had several cases where customers in those countries have chosen to purchase local products rather than Zoltek exports, largely to avoid export control paperwork.²⁴

Hydra-Power Systems, Inc., which recently began exporting transmissions, reported that exporting helped the company to reduce the number of layoffs and maintain sales during the recent economic downturn. However, learning about the ITAR process for exports of dual-use products and applying for its first export licenses cost the company \$20,000 during a time of tight budgets, and involved a six-month time lag to export products which the company produces in six weeks.²⁵ Another company, Magna Technologies, Inc., of St. Charles, MO, also gave an example of losing sales because of export license delays. Magna was working on a project that involved sales of laser sites to the Egyptian government. Given that the delivery was required within 30 days, and that it takes between 45 and 60 days just to get the export license, Magna lost the contract to a Chinese company that was able to promise faster delivery.²⁶

Reflecting ongoing concern about the effects of U.S. export control regulations on U.S. exporters, on April 20, 2010, Secretary of Defense Robert Gates announced a reform proposal with four core components:

- a single export control list
- a single primary enforcement coordination agency
- a single information technology system, and
- a single licensing agency.

²³ Industry representatives, telephone interview by USITC staff, February 5, 2010; and interviews by USITC staff, Houston, TX, March 1, 2010; Miami, FL, March 3, 2010; North Carolina, January 25, 2010; and Boston, MA, March 1–2, 2010; USITC, hearing transcript, March 10, 2010, 213–17 (testimony of Karen Bomba, Zoltek Corp.); USITC, hearing transcript, March 12, 124–125 (testimony of Walter Evans, Schwabe, Williamson & Wyatt, and Pete Herder, Hydra Power Systems, Inc.); National Association of Manufacturers, written testimony to the USITC, March 25, 2010; Foreign Trade Association, written testimony to the USITC, March 24, 2010.

²⁴ USITC, hearing transcript, March 10, 2010, 162–166 (testimony of Karen Bomba, Zoltek Corp.).

²⁵ USITC, hearing transcript, March 12, 150–153 (testimony of Pete Herder, Hydra Power Systems, Inc.).

²⁶ USITC, hearing transcript, March 10, 2010, 238–239 (testimony Stephen Mitchell, Magna Technologies, Inc.).

According to a White House press release, the Administration will work with Congress to implement the reform over the coming year.²⁷

Difficulties Obtaining U.S. Entrance Visas

A number of SMEs noted that the increased difficulty that foreigners faced in obtaining visas to the United States acts as a barrier to SME exports. According to the Oregon Business Development Department, a recent survey of international travel professionals showed that 77 percent believe that the United States was more difficult to visit than other destinations. Entrance procedures to the United States have consistently registered as a top barrier for travel, including misinformation for foreign travelers on U.S. entry and exit requirements; lengthy actual entrance procedures for visiting the United States; long wait times in Customs that create the perception that travelers are not welcome and potentially reduce international visits; and long visa processing times, specifically mentioned by potential visitors from China, India, and Brazil. This has repercussions for both small and large companies in a number of industries.²⁸ In the tourist industry, foreign tourists are less likely to visit the United States due to onerous visa requirements. In health care, patients in the past often traveled to the United States for treatment with a large number of family members, but are now more likely to go to Europe, and U.S. hospitals have begun to set up affiliates overseas rather than rely on the ability to bring patients to this country. In education, there are indications that foreign students are choosing to study at universities outside the United States due in part to onerous visa requirements.²⁹

Manufacturers have found it difficult to invite potential foreign customers to the United States to demonstrate their products.³⁰ For example, according to a representative of the USCS, a medical device firm that was interested in exporting to China repeatedly tried to obtain a visa to bring a Chinese hospital administrator to the United States for a product demonstration for a deal valued at more than \$1 million. The individual was denied a U.S. visa, as were other hospital employees. The USCS was unable to help with the visa, as they have no control over visas. In the end, the USCS was able to assist the medical device company by flying its Chinese customer to Mexico City, to see the equipment at a hospital there, and the firm was able to close the sale, but the visa problems certainly made the transaction extraordinarily difficult.³¹ Another company involved in exporting to China reported that “the length of time that it takes Chinese nationals to get a visa has become extremely onerous,” that the problem has become worse in the last few years, and that it would be much easier to make sales to Chinese customers if it were easier to bring potential customers to the United States to demonstrate their products. Chinese

²⁷ The White House, Office of the Press Secretary, “Fact Sheet on the President’s Export Control Reform Initiative,” April 20, 2010; Garamone, “Gates Proposes Revamp of Export System,” April 20, 2010; Gates, remarks, April 20, 2010.

²⁸ USITC, hearing transcript, March 12, 2010, 14–15 (testimony of Tim McCabe, Business Development Department of Oregon).

²⁹ USITC, hearing transcript, March 12, 2010, 14–15 (testimony of Tim McCabe, Business Development Department of Oregon); USITC, hearing transcript, March 18, 2010, 137–138 (testimony of Spencer Ross, National Institute for World Trade).

³⁰ USITC, hearing transcript, March 18, 2010, 137–138 and March 12, 2010, 85 (testimony of Spencer Ross, National Institute for World Trade and Katy Coba, Oregon Department of Agriculture).

³¹ USITC, hearing transcript, March 10, 2010, 54–55 (testimony of Cory Simek, Foreign Commercial Service).

nationals have to go through an interview process, which seems to take a long time even to schedule, and then wait through even longer delays for the visa to be completed.³²

Visa problems may continue even after sales are finalized. Sunnen Products, a manufacturer of honing machines, stated that it sold a machine system to an Indian company. Approximately 20 weeks later, according to Sunnen, the Indian customer wanted to send a company representative to Sunnen's St. Louis, MO, factory to see the machine being assembled and learn how to operate it. However, the customer's employee was repeatedly turned down for a visa, and Sunnen reported that it had to send its own employee to India to provide the machine demonstration.³³

For U.S. companies with affiliates outside the United States, visa problems also complicate internal company management. For example, Sunnen reported that it also has a wholly owned subsidiary in Shanghai, and that when it tried to bring its Chinese employees from Shanghai for extensive training in St. Louis, they were denied visas. Sunnen stated that as a result, it had to send U.S. employees to China for an extensive training period, along with a machine to use for the training, generating significant additional expenses.³⁴ Another firm with a manufacturing facility in Hungary reported that it takes between nine and 18 months to bring its Hungarian engineers to the United States to train them in the U.S. parent company's procedures.³⁵

U.S. Tariffs

SMEs have noted that U.S. tariffs on goods that they import as intermediate inputs can serve as barriers. For example, Zoltek Corporation reports that to produce its carbon fibers it must import acrylic fibers, which are no longer produced in the United States. As of January 1, 2010, acrylic fibers faced a U.S. import duty of 7.5 percent;³⁶ according to Zoltek, the tariff on inputs makes it cheaper for the company to manufacture carbon fibers outside of the United States.³⁷

Similarly, another Missouri-based SME, Spartan Light Metal Products, reported that it faces difficult competitive conditions in the global magnesium casting industry, based in part on U.S. countervailing duties imposed since 2005 on imported magnesium alloy from China. Spartan said that its foreign competitors can import this input from China without paying a penalty, and then export finished magnesium castings to the United States free from trade penalties. The company further said that the Chinese policies that

³² USITC, hearing transcript, March 10, 2010, 202 (testimony of Rudi Roeslein, Roeslein and Associates). The U.S. Embassy, Beijing, provides information on visa processing times on its Web site, <http://beijing.usembassy-china.org.cn/waittime.html> (accessed May 13, 2010).

³³ USITC, hearing transcript, March 10, 2010, 200–202 (testimony of Thomas Dustman, Sunnen Products).

³⁴ USITC, hearing transcript, March 10, 2010, 200–202 (testimony of Thomas Dustman, Sunnen Products).

³⁵ USITC, hearing transcript, March 10, 2010, 200–203 (testimony of Karen Bomba, Zoltek Corporation; Thomas Dustman, Sunnen Products; Rudi Roeslein, Roeslein & Associates).

³⁶ All carbon fibers are made from polyacrylonitrile and acrylic fibers. U.S. imports of acrylic tow fibers had been subject to a temporary duty reduction and suspensions, all of which expired December 31, 2009, and have not been renewed. As of April 2010, it is unknown whether Congress will renew the duty reduction or suspensions for 2010.

³⁷ USITC, hearing transcript, March 10, 2010, 166–167 (testimony of Karen Bomba, Zoltek Corporation).

spurred the initial countervailing duty order have changed since 2005, and that the U.S. policy should therefore be changed as well.³⁸

Other Domestic Laws and Regulations

Other U.S. government regulations may also impact the ability of SMEs to export. Electronic Export Information (EEI) regulations,³⁹ under which the Census Bureau requires notification of all export shipments valued at more than \$2,500, have been reported by SME representatives as impeding SME exports. Under the regulations, businesses must report all such shipments using their tax ID number. If individuals do not have a tax ID number, they must obtain one in order to report the shipment. This is seen as a significant barrier by some very small, owner-operated businesses that do not already have tax ID numbers. An industry representative explained that some such businesses may export only occasionally—for example, after being contacted directly by a foreign customer, often through the company’s Web site.⁴⁰

Medical devices firms are particularly sensitive to U.S. Food and Drug Administration (FDA) export regulations. U.S. SMEs in the medical devices industry must first be approved by the FDA in order to export, which can prove difficult for more complicated devices, as discussed in the industry case study in chapter 4. Although larger firms face the same approval process, the impact may be greater on SMEs because many small firms depend on a single product to generate revenue for the firm.⁴¹ Also, industries that deal with newly developed materials such as nanomaterials also face uncertain state and federal environmental and health regulations.

In the agriculture sector, one SME representative reported that fees charged by the USDA Animal and Plant Health Inspection Service (APHIS) for the approval of export health papers and overtime user fees have increased sharply in recent years, and have become a burden to exporting. According to the representative, fees have increased from \$33.50 per hour in 1992 to \$144.00 per hour in 2011 and 2012, and are expected to exceed \$155 per hour in 2013. APHIS requires payment for a minimum of two hours for such overtime user fees, even though inspection of an export shipment may take significantly less time.⁴² Additional details on APHIS export requirements are available on the agency’s Web site.⁴³

Transport Costs

SME executives from a number of agricultural and manufacturing industries also reported that transportation costs can serve as significant constraints to exports, with

³⁸ USITC, hearing transcript, March 10, 2010, 172, 232, 258 (testimony of Mike Sparks, Spartan Light Metal Products); written testimony to the USITC, March 10, 2010, Spartan Light Metal Products.

³⁹ As of July 2, 2008, export information must be filed electronically. This is the electronic equivalent of the export information formerly filed on the Shipper’s Export Declaration. The information is used by the Census Bureau for statistical purposes and by the Bureau of Industry and Security and other export enforcement agencies for export control and enforcement purposes. Census Bureau, <http://www.census.gov/foreign-trade/regulations/regs/flipper/index.html#electronicexportinformation> (accessed April 9, 2010).

⁴⁰ Industry representative, telephone interview by USITC staff, Washington, DC, February 25, 2010.

⁴¹ Industry representative, telephone interview by USITC staff, Washington, DC, February 24, 2010; industry representative, interview by USITC staff, Boston, MA, March 2, 2010.

⁴² USITC, hearing transcript, March 10, 2010, 30–31 (testimony of Tony Clayton, Clayton Agri-Marketing).

⁴³ See USDA APHIS Web site, “Import and Export,” http://www.aphis.usda.gov/import_export/ (accessed May 14, 2010).

certain fixed costs placing SMEs at a disadvantage in exporting compared with their larger competitors.⁴⁴ According to one SME advocate, “All SMEs have a stake in investment in transportation when it cuts the delays in getting their products into export markets.”⁴⁵ Rapid and unexpected increases in ocean freight rates were also identified by SME executives as a constraint to exporting, particularly on lower-valued cargo such as hardwood logs, where shipping costs represent a higher proportion of overall production costs.⁴⁶ Another SME representative stated that shipping documentation requirements related to import tariffs and other regulatory requirements are burdensome and increasing.⁴⁷

Shipping modes depend on the type of product being shipped, with larger cargoes generally shipped by rail, truck, or sea, while higher-value, low-volume products (e.g., pharmaceuticals, architectural blueprints) are more likely to be shipped by air. Given economies of scale, shipping full containers is considerably less expensive than shipping smaller orders. However, many SME exporters cannot fill a shipping container. SME representatives described a number of creative strategies they say they have adopted to address the issue. In some cases, a broker might aggregate multiple companies’ exports into a single container, and a distributor would apportion the shipment to individual customers upon arrival. In a variation on this strategy, a broker might sell the aggregated export shipment to a U.S. company, which would then ship it overseas and sell the product.⁴⁸

One key issue cited by SME exporters of agricultural goods and second hand textiles is the problem of container shortages. Two public officials testified that since mid-2008, the economic downturn has led global marine shipping companies to take roughly 13 percent of the global fleet out of service, together with the empty containers that remain on board the furloughed vessels, effectively taking those containers out of service. In addition, according to the testimony, most U.S. imports arrive at East Coast ports, so there are significantly more shipping containers available on the East Coast compared to the West Coast; data for the Port of Portland, OR, alone show an annual deficit of nearly 70,000 containers in 2009. The officials noted that at the same time, railroad costs for repositioning containers have tripled; for ocean carriers, it is generally more profitable to reposition empty containers directly to Asia, rather than to the U.S. West Coast.⁴⁹ If exporters have to absorb the costs of repositioning the containers, according to the testimony, it often raises the prices of their exports too high to compete with other global sources of many commodities. The witnesses stated that these trends pose particular problems for agricultural producers and other types of firms that operate on very small

⁴⁴USITC, hearing transcript, March 10, 2010, 24–28; and industry representatives, interviews by USITC staff, Washington, DC, and North Carolina, February 9, 2010, and January 25–28, 2010; industry representatives, telephone interviews by Commission staff, December 2009–March 2010; and USITC, hearing transcript, March 10, 2010, 54.

⁴⁵ USITC, hearing transcript, March 12, 2010, 33 (testimony of Walter Evans, Schwabe, Williamson & Wyatt).

⁴⁶ USITC, hearing transcript, March 18, 2010, 131–132 (testimony of Jameson French, The Hardwood Federation).

⁴⁷ Sauereisen, written testimony to the USITC, January 2010.

⁴⁸ Industry representatives, interviews by USITC staff, January–March, 2010.

⁴⁹ Ships deliver a greater share of U.S. imports to East Coast ports, but more goods are exported from the United States to Asia out of West Coast ports, requiring empty shipping containers to be repositioned. It is generally more cost-effective for shippers to move empty containers across the country via railroad than to reload the empty containers onto ships for transport to the West Coast. USITC, hearing transcript, March 12, 2010, 19–20, 24 (testimony of Katy Coby, Oregon Department of Agriculture, and Greg Borossay, Port of Portland).

margins, generating some concerns about West Coast farmers being unable to afford to export agricultural products overseas.⁵⁰

Small-Scale Production

Another factor limiting exports for some U.S. SMEs is the small scale of production. Many of those who testified noted that this factor can limit export potential for certain SMEs, as foreign buyers may seek out only those suppliers able to fulfill high-volume orders.⁵¹ This is a particular issue for SME exporters in the agriculture sector, as discussed in the case studies of the wine and apple industries in chapter 4. In the wine industry, for example, representatives noted that SMEs often focus on producing smaller volumes of higher-value products, so they are not able to supply high-volume retail outlets. Likewise, it was reported that in the apple industry, smaller volumes and an inability to consistently provide the varieties and sizes demanded by foreign importers prevent apple exporters from expanding export sales. SMEs' small-scale production also means that they face higher shipping, logistics, compliance, and insurance costs per shipment, which raises their prices and threatens their competitiveness in foreign markets.⁵² The representatives pointed out that producing on a smaller scale also means that a single export shipment carries a higher level of risk for the firm, as it represents a greater share of overall production; if exports are seen as more risky than domestic shipments, this may be enough to deter small producers from vigorously pursuing an export strategy.⁵³

Foreign Barriers to SME Exporting

The foreign barriers cited most often by SMEs were foreign government regulations, particularly labeling rules and sanitary and phytosanitary (SPS) regulations; language and cultural barriers; and U.S. SMEs' limited knowledge of foreign markets. According to one global company that works closely with SMEs, another problem for SMEs are trade barriers that prevent large U.S. service providers from operating in foreign markets, particularly providers of financial, insurance, and logistics services. The company representative explained that many SMEs likely prefer to use the same service providers in foreign markets that they use at home, facilitating small companies' abilities to maintain their supplier relationships as they expand into exporting. Since these services are essential to exporting, according to this representative, barriers faced by these large services firms effectively act as export barriers for SMEs.⁵⁴

Foreign Government Laws and Regulations

Representatives of SMEs in many industries reported to the Commission that the costs of understanding and complying with foreign government laws and regulations can pose significant barriers to exporting. These representatives stated that such regulations pose two types of problems for SMEs: (1) the administrative burdens of compliance, and (2)

⁵⁰ USITC, hearing transcript, March 12, 2010, 19–20, 24 (testimony of Katy Coby, Oregon Department of Agriculture, and Greg Borossay, Port of Portland); Secondary Materials and Recycled Textiles, written testimony to the USITC, March 26, 2010.

⁵¹ Industry representatives, telephone interviews by USITC staff, December 2009–March 2010.

⁵² Compliance costs include meeting foreign market sanitary and phytosanitary (SPS) regulations and certifications. Examples include laboratory tests and producing and applying special labels to meet export market regulations. Industry representative, interview by USITC staff, Washington, DC, February 4, 2010.

⁵³ Industry representative, telephone interview by USITC staff, Washington, DC, February 11, 2010.

⁵⁴ Industry representative, interview by USITC staff, Washington, DC, February 25, 2010.

the lack of standardized regulations across countries. Related to the difficulties posed by regulatory compliance, according to the testimony, is the inability of small firms to hire personnel dedicated to navigating the market and regulatory environments of potential export markets, which makes the problem more difficult for SMEs than for large firms that are better able to absorb the cost of hiring additional staff.

In the agricultural sector, examples of regulatory compliance costs cited by SMEs that either limited or prevented exports to certain countries include the administrative burden of import and export paperwork; the cost of additional record-keeping,⁵⁵ testing, or certification requirements; and the need to tailor production practices to meet a foreign regulation, such as those regarding food standards, SPS requirements, or packaging regulations.⁵⁶ One U.S. exporter of livestock reported to the Commission that health protocols differ widely in various export markets, and that trying to meet all of the requirements is very difficult. For instance, according to the exporter, China and Russia each require a veterinarian from their country to supervise livestock operations, costs that are borne by the U.S. exporters; China also requires a certification by a particular USDA lab in Iowa.⁵⁷ In addition, representatives noted that foreign regulations and import requirements, including restrictions resulting from specific events like outbreaks of disease, can result in delays at foreign ports, potentially damaging perishable food or pharmaceutical products.⁵⁸ The industry case studies in chapter 4 examine specific examples of how such barriers affect U.S. exports of wine and apples.

Industry representatives stated that certification for organic products in multiple countries using different standards may serve as an export barrier for SMEs. For example, they reported that an organic product produced in the United States and shipped to both France and Japan requires separate certifications in all three countries. Canada recognizes the U.S. National Organic Program standard, so organic product exports to Canada do not face this problem. One SME reported that its hemp products are certified as organic under USDA rules that had previously been recognized in Korea, but that the Korean government has recently issued its own organic certification rules that are significantly stricter than U.S. standards, such that most U.S. companies would fall out of compliance. U.S. government agencies are reportedly trying to negotiate a compromise with Korea, but if those efforts are unsuccessful, the company will stop exporting to Korea as of January 1, 2011, when the new Korean organic standards take effect.⁵⁹

SPS regulations in particular were cited as potential barriers to exports. For example, witnesses stated that China has placed a ban on oak and maple tree imports because of concerns over Sudden Oak Death, which is a disease in plant products. The witnesses explained that the State of Oregon, in partnership with the federal government, conducts a very rigorous inspection program for Sudden Oak Death that is recognized nationwide. The Oregon Department of Agriculture, they added, invites trading partners to examine the inspection process and protocols, but Oregon wood products producers continue to

⁵⁵ For example, a foreign government might require traceability of the agricultural product back to the field of production, requiring a detailed recordkeeping system that an SME producer would not already have in place. USITC, hearing transcript, March 10, 2010.

⁵⁶ Industry representatives, telephone interviews by USITC staff, December 2009–March 2010; USITC, hearing transcript, March 10, 2010, 29–30, 60; and USITC, hearing transcript, March 12, 2010, 20–21.

⁵⁷ The cost associated with the Chinese veterinarian is \$12,000. The cost of the Russian veterinarian was not reported. USITC, hearing transcript, March 10, 2010, 67–69 (testimony of Tony Clayton, Clayton Agri-Marketing).

⁵⁸ USITC, hearing transcript, March 12, 2010, 108–109; industry representatives, interviews by USITC staff, Washington, DC, February 18 and 25, 2010; telephone interview by USITC staff, March 23, 2010.

⁵⁹ The Merry Hempsters, Inc., written testimony to the USITC, March 23, 2010.

face such export challenges.⁶⁰ The hardwood industry reported that China and India, among other countries, now require expensive product tests that can only be performed in those countries, adding significant costs to exporting.⁶¹

Foreign laws and regulations also strongly affect exports by firms in the service sector. For example, according to industry officials, regulations may raise costs for aviation maintenance services SMEs through requirements to submit to multiple regulators' oversight of maintenance facilities.⁶² The officials said that large services firms often have multiple regulatory experts on staff, but services SMEs generally do not employ export managers (though they may contract with external law firms or consultants for specific needs).⁶³ The officials also stated that SME services firms are also less likely than large firms to actively participate in the development of international regulatory standards through industry associations and contact with government agencies. While industry associations also represent SMEs in promoting market access initiatives or seeking regulatory harmonization, SMEs themselves are reportedly more likely to accept the state of regulation in foreign countries as given.⁶⁴ Specific examples illustrating the impact of foreign government regulations on SMEs in the computer and professional services industries are reported in chapter 4.

Government regulations in a number of countries create market access barriers specific to the film and television industry, including local dubbing requirements and screen quota requirements, according to industry witnesses. For example, the witnesses stated that Spain and France require film dubbing to be done locally, so distributors must use local laboratories and talent to dub their films, increasing exporting expenses and cutting down on economies of scale. The witnesses also reported that Korea, Spain and China impose screen quotas, which require that theaters exhibit locally produced films for specific amounts of time or proportions of screen time. The witnesses explained that screen quotas reduce export opportunities by lowering the number of slots available for theatrical exhibition of foreign films.

The Chinese and Indian markets were identified as having specific audiovisual services barriers, including piracy, distribution, and ownership restrictions. Witnesses stated that in China, foreign motion pictures are imported and distributed theatrically only by two state-licensed Chinese entities, leaving few distribution opportunities for theatrical release of foreign films. For those films that are imported and released, they added, the licensing arrangement is on much less favorable commercial terms than could be negotiated in an open market. Other barriers for exports to China that were cited include rigorous and nontransparent censorship requirements and piracy. In India, market access barriers cited include foreign ownership restrictions, considerable piracy, and customs valuation practices that inflate the costs to SMEs and discourage Indian imports. In addition, witnesses said that customs authorities continue to demand five years of proprietary and financial documents to determine allegedly delinquent taxes, sometimes refusing to release products into the market in the absence of inflated duty payments.⁶⁵

⁶⁰ USITC, hearing transcript, March 12, 2010, 20–21 (testimony of Katy Coba, Oregon Department of Agriculture).

⁶¹ USITC, hearing transcript, March 18, 2010, 73 (testimony of Jameson French, Hardwood Federation).

⁶² Bilateral aviation safety agreements that provide mutual recognition of aviation authority oversight of such maintenance facilities can alleviate this burden. USITC, hearing transcript, March 18, 2010, 184 (testimony of Christian Klein, Aeronautical Repair Station Association).

⁶³ Industry representative, telephone interview by USITC staff, January 27, 2010.

⁶⁴ Industry representative, interview by USITC staff, New York, NY, February 18, 2010.

⁶⁵ Independent Film & Television Alliance, written testimony to the USITC, March 25, 2010.

Problems with regulation were also mentioned by a number of SME representatives. They stated that different regulatory standards, and the lack of mutual recognition between foreign and U.S. regulators, can significantly raise the compliance costs of operating in more than one market, and tend to pose a much larger burden for SMEs, particularly if they are small suppliers, than for large companies.⁶⁶ For example, one company that produces medical devices reported that they pay \$20,000 annually for ISO certification: \$5,000 for the initial certification, plus \$3,000 for each additional country to cover inspection fees.⁶⁷ The firm currently exports to the European Union (EU) and Canada, but said that they had decided not to expand to Japan, due to the high costs of certification. To be certified in all APEC member countries, the firm estimated a total annual cost of \$62,000 a year, which could not be justified by potential additional sales in those markets.⁶⁸

One specific type of regulation mentioned by many SMEs is labeling requirements, which can add significant costs to the production of goods for export when countries require different labels for the same product. According to industry officials, the costs can be so high that companies stop exporting certain product lines rather than meet multiple and sometimes divergent labeling requirements in different countries.⁶⁹ Issues with labeling regulations were cited as problems for SMEs in industries as diverse as chemicals, nanotechnology, textiles and apparel, and across the agriculture sector. Among the examples discussed were food labeling laws, such as those that require packaging to identify ingredients, nutritional facts, and organic content; these raise costs for exporters by requiring that they affix unique labels to products destined for different export markets. Some labeling regulations can reportedly prevent an SME from entering new export markets altogether, due to concerns that proprietary formulas or ingredients may be divulged.⁷⁰ Other testimony pointed out that for wineries that ship to multiple export destinations, labeling requirements that differ by country can be an important barrier, as designing multiple product labels is expensive.⁷¹

Protection of Intellectual Property

Several SMEs cited their inability to protect their intellectual property (IP) in certain foreign countries as an important barrier to increasing SME exports. In particular, they noted that in many cases they lack the ability to identify sources of infringement and lacked the financial resources to enforce copyrights in local courts. Larger companies may protect their IP, in part, through local representatives or visits to foreign markets to monitor counterfeiting activities, but the witnesses stated that SMEs are unlikely to have the resources for such activities. Exporters of films and television programming similarly noted that remedies that may be available to larger producers, including worldwide same-day release and legal action through local court systems, are often too expensive to be practical for SME producers, making U.S. government enforcement efforts indispensable.⁷²

⁶⁶ USITC, hearing transcript, March 12, 2010, 20–21 (testimony of Katy Coba, Oregon Department of Agriculture); and Kay, written testimony to the USITC, February 19, 2010.

⁶⁷ ISO refers to standards developed by the International Organization for Standardization. See the organization's Web site at <http://www.iso.org/iso/home.htm>.

⁶⁸ USITC, hearing transcript, March 12, 2010, 142 (testimony of Grant Ramaley, Aseptico, Inc.).

⁶⁹ Industry representatives, interviews by USITC staff, January–March 2010.

⁷⁰ For example, a firm may choose not to enter certain markets due to the concern that ingredient labels may require that it reveal too much information about proprietary recipes. USITC, hearing transcript, March 12, 2010, 20–21 (testimony of Katy Coba, Oregon Department of Agriculture).

⁷¹ USITC, hearing transcript, March 18, 2010, 119 (testimony of James Gore, Clawson International).

⁷² Independent Film & Television Alliance, written testimony to the USITC, March 26, 2010.

A number of SMEs singled out China as an export market in which their IP was vulnerable, and as a country that offered few legal protections against theft of trade secrets, product designs, and other IP violations.⁷³ Some SMEs have taken steps to protect their IP. Roeslein & Associates, an SME that provides engineering consulting services, stated that IP problems are so prevalent in China that the company has intentionally added faults to some engineering drawings and computer programming systems, to ensure that competitors will not profit from copying them, rather than trying to enforce their rights through the court system.⁷⁴

Other SMEs report substantial economic impacts from Chinese IPR infringement. Sunnen Products, a machine tools company, indicated that when they introduce new machines in China, whether or not they are patented, copies tend to appear on the Chinese market within six months. Sunnen estimates that it lost 40–50 machine sales over the last three to four years to illegal copies of its products in China.⁷⁵ According to the Independent Film & Television Alliance, film and television piracy has significant economic impacts on SMEs in the industry.

Piracy lowers the license fees that distributors can or will pay for independent films because legitimate distributors, including online distributors, cannot compete against pirated product that is free or nearly free. Local distributors will often cite piracy, even for films not yet released in that market, as a reason to pay reduced license fees, change the terms of an executed license agreement, or decline to distribute a film at all. Moreover, piracy decreases the value of the film's license in neighboring regions where pirated copies may be distributed. The risk of the film being pirated throughout the region, thus lowering the value of the license and exposing the producer (or seller) to possible contract renegotiation demands by local distributors in neighboring countries, can outweigh the financial benefit of distributing in certain territories.⁷⁶

According to another SME, Chinese medical device companies have been copying U.S. and European technologies and selling them on world markets at significantly lower prices. Chinese firms reportedly have attempted to market inferior products in the United States without appropriate regulatory clearances.⁷⁷

To address the lost business opportunities to SMEs from foreign IPR infringement, one industry representative called for a new U.S. system to monitor U.S. investment overseas, run by the Department of Commerce, whereby offers by U.S. firms for joint ventures or licensing contracts overseas would first be made to U.S. SMEs, as a means of retaining valuable intellectual property within the United States.⁷⁸

⁷³ USITC, hearing transcript, March 12, 2010, 11, 39 (testimony of Tim McCabe, Oregon Business Development Department, and Matt Nees, Software Association of Oregon); USITC, hearing transcript, March 18, 2010 (testimony of Spencer Ross, National Institute for World Trade); Air Tractor, Inc., written testimony to the USITC, March 25, 2010; Foreign Trade Association, written testimony to the USITC, March 24, 2010.

⁷⁴ USITC, hearing transcript, 207 (testimony of Rudi Roeslein, Roeslein and Associates).

⁷⁵ USITC, hearing transcript, March 10, 2010, 206–209 (testimony of Rudi Roeslein, Roeslein and Associates; Thomas Dustman, Sunnen Products).

⁷⁶ Independent Film & Television Alliance, written testimony to the USITC, March 26, 2010, 4.

⁷⁷ Tiba Medical, written testimony to the USITC, March 26, 2010.

⁷⁸ USITC, hearing transcript, March 18, 2010 (testimony of Spencer Ross, National Institute for World Trade).

Customs Clearance

One problem frequently cited by SMEs is customs clearance delays, which affect all SME exporters but are a particularly significant impediment to companies shipping perishable products, such as food or medical supplies. For example, one company that ships radioactive isotopes for medical treatments stated that it can export around the world using overnight express shipping, but the half-life on the product (the time by which the product decays) is approximately 60 hours. The representative said that they simply do not export to Latin America, because frequent customs delays in many countries in the region make it impossible to guarantee final delivery within the useful life of the product. For any time-sensitive product, an export market is closed if customs delays cannot be overcome, industry officials pointed out. Similarly, they said, companies cannot be part of the cross-border global supply chain if they cannot participate in the just-in-time inventory environment.⁷⁹

Foreign Tariffs

SMEs in both the agriculture and manufacturing sectors said that high tariffs overseas increase the costs of U.S. exports, often making it difficult to compete with foreign producers in local markets.⁸⁰ U.S. firms also noted that they can be harmed by preferential trade agreements in place between their export market countries and third countries, because such trade agreements give foreign exporters increased access to those markets, compared with access for U.S. producers.⁸¹ One industry representative stated that because SMEs may operate in niche markets where they produce smaller quantities of high-value goods, high foreign tariffs may also have a more significant impact on such SME exports, compared with larger firms that may export larger quantities of lower-value goods.⁸² U.S. exporters of secondhand textiles stated that they face restrictions imposed by up to 31 countries, some of which ban such imports outright while others have adopted high tariffs to discourage such trade. Given that the primary markets for secondhand textiles are outside the United States, the industry is particularly concerned about such barriers.⁸³

Foreign Government Support Programs

Representatives of the wine and the textiles and apparel industries cited foreign government support programs for their domestic industries as important impediments, making U.S. exports less price-competitive vis-à-vis locally produced goods in a number of countries.⁸⁴ In addition to direct foreign support of particular industries, representatives of U.S. SMEs also report that foreign governments support exports by their firms to a greater extent than the U.S. government, through low-cost loans; marketing support, including support to appear at international trade fairs; free trade missions; and tax incentives. According to industry and government sources, foreign governments heavily

⁷⁹ Industry officials, interviews by USITC staff, Washington, DC, February 25, 2010.

⁸⁰ Bieri. Written testimony to the USITC, January 29, 2010; and Kay, written testimony to the USITC, February 19, 2010.

⁸¹ For example, the free trade agreement between China and the ASEAN countries of Southeast Asia may mean that Chinese producers of certain products receive preferential access in the ASEAN market, compared with U.S. producers of those products. Kay, written testimony to the USITC, February 19, 2010.

⁸² Industry representative, interview by USITC staff, Washington, DC, February 4, 2010.

⁸³ Secondary Materials and Recycled Textiles, written testimony to the USITC, March 26, 2010.

⁸⁴ Additional detail is provided in the industry case studies. USITC, hearing transcript, March 18, 2010, 78 (testimony of James Gore, JB Clawson International); industry representative, telephone interview by USITC staff, February 16, 2010.

subsidize their companies' participation in trade missions and trade fairs related to a wide variety of industries. Examples were cited by firms in the aircraft, textiles and apparel, and movies and television industries, among others. In contrast, U.S. SMEs state that, whether they are attending a trade fair or exhibiting, typically they must pay their own attendance fees and related travel expenses. They report that foreign governments may also provide support for potential customers to travel to those markets to evaluate local products.⁸⁵ One company noted that the EU publishes a free, comprehensive market access database that permits EU-based firms to understand tariffs, taxes, and import requirements for exporting to overseas markets, and notes that an equivalent database would be a useful tool for U.S. SMEs interested in exporting.⁸⁶ Chapter 2 of this report includes an extensive discussion of EU government support for exporters.

An association representing independent film and television producers cited another example, noting that the United States does not participate in bilateral "co-production agreements," as do Australia, Canada, China, Great Britain, and France, among many other countries. Under these agreements, local talent, crew and expenditures, and shooting locations are able to qualify for cross-national benefits, including subsidies and screen quota qualifications. Equally important, according to the association, such co-production agreements create relationships between producers and distributors in multiple countries that become the basis for future business; the lack of such agreements in the United States further limits opportunities for U.S. independent producers and distributors to develop their global business.⁸⁷

Exchange Rate Fluctuations

Exchange rate fluctuations can have a significant impact on the payment that a company ultimately receives for export sales. An industry representative stated that larger companies tend to have the resources and experience to hedge against global currency fluctuations, whereas SMEs may not have such abilities. The representative noted that the impact of exchange rate fluctuations can also vary depending on the industry and the particular export market. For example, shipments of chemicals exported to the EU are denominated in euros, so their value can fluctuate significantly with exchange rates; in comparison, sales to Asian countries are often valued in dollars, providing more stable terms for exporters.⁸⁸

Language and Cultural Barriers

SMEs in a number of industries reported cultural and language barriers to exporting. Such barriers may make it more difficult for firms, particularly small firms, to identify foreign customers and markets for their products. The NW Trade Adjustment Assistance Center, charged with assisting SMEs that have been affected by imports, has noted that most of the SMEs it works with do not have staff members that speak a foreign language, making it more difficult for them to begin exporting.⁸⁹ As noted by another industry representative, it is vital for SMEs and other U.S. exporters to become proficient in "the new languages of trade," specifically Portuguese, Hindi, Russian, Mandarin, Arabic and

⁸⁵ Kay, written testimony submitted to the USITC, February 19, 2010; USITC, hearing transcript, March 10, 2010, 128, 137 (testimony of Tony Clayton, Clayton Agri-Marketing); industry and U.S. government officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

⁸⁶ TradeMoves LLC, written testimony to the USITC, March 24, 2010. Chapter 2 discusses exports by U.S. vs. EU SME exporters in greater detail.

⁸⁷ Independent Film & Television Alliance, written testimony to the USITC, March 26, 2010.

⁸⁸ Industry representative, interview with USITC staff, February 9, 2010.

⁸⁹ NW Trade Adjustment Assistance Center, written testimony to the USITC, submitted March 24, 2010.

Korean, the languages spoken in emerging markets that are poised to increase their share of U.S. exports. The speaker called for increased funding and attention to foreign language programs in U.S. schools at all levels in an effort to address the problem.⁹⁰ Language and cultural barriers may be particularly acute for SMEs in the services sector, where exports typically entail developing an ongoing relationship with a foreign customer. For instance, in the computer services industry, there is a need to provide on-site customer service and installation assistance.⁹¹

Global Products International (GPI) produces and sells Harley-Davidson branded products in 69 countries from manufacturing facilities in the United States, Canada, and Germany, and has faced a wide variety of cultural and language challenges. For example, they reported that customers in Russia have higher expectations of fabrics and stitching, but demand products at a lower price, and that in many markets intense price competition is due to the prevalence of counterfeit goods. The company stated that it also faces language barriers that can affect its ability to meet importer quality standards. In the Ukraine, for instance, GPI notes that it recently received a contract for payment based on its performance and the customer's final acceptance of the product, but later faced an unexpected interpretation of the contract when it discovered that many provisions reportedly related to money laundering in the Ukraine. According to GPI, the company's access to staff with language skills influences its choice of marketing strategy and its ability to execute that strategy. GPI noted that it has employees with language skills in Spanish, Russian, German, and Chinese and is currently looking to hire someone who speaks Japanese, but added that acquiring employees with those skills took years of hiring and training.⁹²

Knowledge of Foreign Markets

Many SMEs noted that their limited knowledge of foreign markets acts as a significant barrier to increasing their exports. In most cases, their small size and resources preclude hiring the staff needed to identify export opportunities, establish relationships with foreign buyers, understand importing regulations and compliance rules of importing countries (e.g., labeling, consumer safety, or SPS regulations), and seek out export assistance available through various U.S. state and federal government programs. Several SME executives noted that the cost of employing a dedicated export sales staff to perform these vital duties is often prohibitive, and thus exporting is not a viable business option for many of them.⁹³ One SME representative stated that the cost of networking and of acquiring information on projected economic and political conditions in foreign markets, including currency fluctuations, market desirability, or regulatory changes, was prohibitively high for SMEs, whereas larger businesses were more likely to be part of organizations that pooled resources and shared such information.⁹⁴

One SME representative offered a list of critical questions for SME exporters, noting that most would find it very hard to find the answers:

⁹⁰ USITC, hearing transcript, March 18, 2010, 61–63 (testimony of Spencer Ross, National Institute for World Trade).

⁹¹ Industry representative, telephone interview by USITC staff, March 2, 2010.

⁹² USITC, hearing transcript, March 10, 2010, 179–180 (testimony of Rebecca Herwick, Global Products International, Inc.).

⁹³ USITC, hearing transcript, March 18, 2010, 198, 222 (testimony of Maria Hardy, Medical, Laboratory & Technology Consultants, Inc. and Joseph Reddix, The Reddix Group LLC); industry representatives, telephone interviews by USITC staff, December 2009–March 2010.

⁹⁴ USITC, hearing transcript, March 10, 2010, 267 (testimony of Rebecca Herwick, Global Products International, Inc.).

- “What countries would best fit my product?”
- “Are there countries I cannot export products to?”
- “How do we identify potential customers within a country?”
- “How can we obtain export financing; what is a letter of credit; what about customers who insist upon receiving net 30 day payment terms or open account, how do we know we will receive payment?”⁹⁵

While those questions might easily be answered by assistance organizations such as the SBA or world trade organizations, international trade commissions, local banks, or attorneys, SMEs said that they often find it difficult to sort through the available information to answer such questions.⁹⁶

Related to the problem of gaining sufficient knowledge about foreign markets is the problem of finding reliable local representation overseas. SMEs in a number of industries, including medical devices and textiles and apparel, have noted that it can be difficult for them to find business partners or distribution agents in foreign markets.⁹⁷ According to one industry source, compliance with the Foreign Corrupt Practices Act (FCPA)⁹⁸ can further increase a U.S. firm’s risk in selecting important local business partners and arrangements.⁹⁹

Strategies to Overcome Barriers to Exporting

U.S. SMEs have developed a number of strategies to overcome some barriers to exporting. These strategies fall into three principal categories: (1) combining forces with other firms in the same industry, either through trade associations or through less formal consortia; (2) collaborating with a single larger firm, either a firm in the same industry or a broker or distribution agent; and (3) taking advantage of government programs that assist SME exporters. As illustrated below, these strategies may work together. For example, industry associations have assisted SMEs in understanding and accessing government programs to a greater extent than would have been possible for SMEs operating on their own. As an example, box 3.1 identifies several of the barriers to exporting encountered by one company, along with the strategies that the company used to overcome those barriers and become a successful exporter.

Trade Associations and Coalitions with Other Firms

Many firms find it advantageous to combine forces to achieve mutual goals, such as increasing public awareness of their products or working to achieve changes in regulations. For example, the U.S. Chamber of Commerce Trade Roots group works with businesses, trade associations, and local government agencies around the United States to

⁹⁵ USITC, hearing transcript, March 10, 2010, 188–189 (testimony of Stephen Mitchell, Magna Technologies, Inc.); bullets in original.

⁹⁶ USITC, hearing transcript, March 10, 2010, 188–189 (testimony of Stephen Mitchell, Magna Technologies, Inc.)

⁹⁷ USITC, hearing transcript, March 10, 2010, 182–183 (testimony of Rebecca Herwick, Global Products International, Inc.); industry representatives, telephone interviews by USITC staff, February 17, 19, and 23, 2010.

⁹⁸ Under the Foreign Corrupt Practices Act, it is illegal under U.S. law for U.S. persons to make payments to foreign government officials to assist in obtaining or retaining business. Additional details are available at <http://www.justice.gov/criminal/fraud/fcpa/>.

⁹⁹ Industry representative, interview by USITC staff, Houston, TX, March 2, 2010.

BOX 3.1 Barriers to exports of services and strategies to overcome the barriers: The case of Systems Integrated

The experiences of Systems Integrated (SI) in entering the export market illustrate several barriers to exports commonly faced by SMEs in the service sector, including accessing financing, navigating the international bidding process, and protecting intellectual property (IP). SI supplies computer services along with engineering, construction, and consulting services. Many of its customers are utilities, and the company typically takes responsibility for entire water or power control systems, such as unmanned hydropower plants. The company employs engineers, programmers, and technicians, who write software, design custom circuitry boards, and purchase and assemble manufacturing inputs. SI has 25 employees, none of whom are dedicated full-time to managing exports.

SI identified opportunities in exporting to developing countries engaged in high levels of infrastructure investment. The firm's first exporting experience was to China, where one employee had existing contacts. The firm won a bid on a World Bank project and was able to obtain a bank letter of credit through contacts with the California Export Finance Office, which is no longer in operation. The project was completed successfully and led to further business in China.

SI initially worked with a local representative in China and eventually established an office in Beijing. At one point the company established a joint venture with a Chinese firm, but began to see its copyrighted software appearing elsewhere in China. The firm considered defending its copyright and suing for reparations in the Chinese court system, but determined that legal action could cost millions of dollars and there was much the firm did not understand about the Chinese legal system. They decided to leave the country and operate in countries with stronger enforcement of IP rights.

Another challenge encountered by SI is access to finance. Some banks found it difficult to understand the firm's variety of products and services, lack of inventory, and use of new technology, as well as the size of its bids and the high level of responsibility such a small firm takes on in building complex infrastructure systems. The company eventually found a bank willing to work with it, but it has taken time to do so.

The international bidding process poses challenges for SMEs like SI. The firm often bids for contracts that are paid in local currencies, and therefore must buy forward to protect against currency fluctuations. Additionally, governments often issue bids in local languages and do not provide translations (although the World Bank and other multilateral organizations usually issue bids in English), so SI must hire its own translators who understand engineering nuances, a process that can be expensive and time consuming. Many bids also have local content requirements, which can be a constraint, though SI often uses local firms as subcontractors where possible, even in the absence of such requirements. The actual process of bidding has become easier and less expensive due to technological improvements. SI used to ship large quantities of bid documents and engineering blueprints overseas and hire a counterpart to assemble the documents upon arrival, but now it is possible to send everything via e-mail and use a Voice over Internet Protocol service to communicate.

SI noted the advantage of having an existing relationship in countries where it may bid on projects. For example, the firm's entry into Malaysia was facilitated by a manufacturer who owned a factory in Malaysia and acted as a local representative. The company has sought and developed relationships with representatives abroad who understand both technology and local governments.

Sources: Systems Integrated representatives, interview by USITC staff, Irvine, CA, March 5, 2010.

increase awareness of exporting for small businesses.¹⁰⁰ Agricultural SMEs in particular are often able to overcome constraints to exporting because of the way agricultural producers have organized themselves into cooperatives and commodity and trade organizations over time. Agricultural cooperatives are farmer-owned production and marketing organizations that serve multiple purposes, including providing the necessary scale to meet buyers' demands for large, consistent quantities while reducing marketing and transportation costs for smaller operations. Commodity and trade organizations often provide members with support ranging from agricultural research to promotional

¹⁰⁰ U.S. Chamber of Commerce, written testimony to the Commission, February 9, 2010.

activities, both domestically and abroad, including promotion of U.S. agricultural products through USDA export promotion programs.¹⁰¹

In the agriculture sector, packers and marketers may source products from independent growers and other packers as well as from their own growers. This allows exporters to increase their ability to meet customer demands in terms of varieties and sizes, while also allowing them to supply more consistent volumes throughout a greater portion of the year.¹⁰² Similarly, many U.S. SME wineries use brokers or agents to facilitate exports.¹⁰³

Some SME manufacturers also participate in industry consortia to share costs and risks related to regulatory programs and transportation, as well as to maximize their market presence overseas and optimize transportation logistics. For example, nanotechnology companies have formed a consortium to work with the U.S. Environmental Protection Agency to develop nanotechnology definitions and regulations.¹⁰⁴ SME exporters of professional services frequently join networks of service providers as well. Professional services are often complementary, and networks that comprise providers of accounting, legal, management consulting, and other services can facilitate both international referrals and ad hoc alliances that offer complete packages of services to clients.

Cooperation With Larger Companies

Many SMEs across all industries work closely with global shipping and logistics firms that can help them access foreign markets, identify potentially problematic foreign import restrictions before goods are shipped, deal with customs clearance procedures and security concerns, access multimodal shipping and logistics services, and even offer warehousing and inventory management services overseas. Using the global logistics networks of large firms helps SMEs to match some of the capabilities of larger suppliers and better track delivery of inputs and shipment times. New products offered by shipping companies permit SMEs to handle much of their shipping needs from their own offices, simplifying the process and saving substantial staff time.¹⁰⁵ One logistics company noted that it actively works to identify SME customers that currently export to a single market, usually Canada or Mexico, and works with those SMEs to help them expand exports into additional markets.¹⁰⁶

In an effort to help its SME customers with access to trade finance, FedEx collaborates with the USCS and that agency's partnerships with six regional commercial banks.¹⁰⁷ UPS has pursued a different strategy, setting up a subsidiary to provide direct trade finance to SME exporters or their foreign customers (box 3.2). Besides forming alliances with larger companies in the same industry, SMEs may also hire large or small private sector consultant firms for insight into exporting strategies and market knowledge or for more concrete assistance, such as identifying distributors in foreign markets.

Professional services SMEs operate on the strength of their reputations, and hence often enter foreign markets through relationships and referrals, often with large multinational

¹⁰¹ Although many U.S. agricultural cooperatives are SMEs, there are some very large cooperatives that employ more than 500 employees. USDA, however, considers all agricultural cooperatives to be eligible for its SME exporting assistance programs.

¹⁰² Industry representatives, telephone interviews by USITC staff, December 2009–February 2010.

¹⁰³ Industry representatives, telephone interviews by USITC staff, February 11 and 16, 2010.

¹⁰⁴ Industry representatives, interviews by USITC staff, January–March 2010.

¹⁰⁵ Industry representatives, telephone interview by USITC staff, February 25, 2010; interview by USITC staff, Washington, DC, February 18, 2010; UPS and FedEx promotional materials.

¹⁰⁶ Industry representatives, interview by USITC staff, Washington, DC, February 18, 2010.

¹⁰⁷ FedEx, "The Missouri Trade Initiative," 2009; U.S. Commercial Service Web site, "Our Partners."

firms. For example, management consulting and accounting SMEs may work with large domestic clients that then ask them to supply services to their foreign subsidiaries, or an SME may work with a domestic subsidiary of a foreign firm which, over time, may lead to work for the firm's foreign headquarters.¹⁰⁸ Similarly, legal services SMEs sometimes become involved internationally at the request of a client—for example, someone who owns property in multiple countries may seek a law firm that can deal with property law issues across borders.¹⁰⁹

Government Programs

U.S. government programs can be important sources of information on foreign markets and customers for SME exporters. Federal government agencies that provide such assistance include the Ex-Im Bank, the USCS, the SBA, and the FAS. All of these agencies maintain a network of offices and staff around the United States that are available to assist SMEs. According to one SME representative of an export management company,

[W]e made full and ongoing use of the U.S. Department of Commerce and Ex-Im Bank staff and resources through their domestic and international offices, including trade counseling, market research reports, trade shows, the Gold Key Service, export credit insurance and taking the time and effort to meet with U.S. Commercial [Service] officers in the foreign countries in which we are doing business. These sound like such obvious steps but many SMEs are still not taking advantage of the resources already existing to assist them at very low or no cost. If the U.S. government is committed to increasing SME exports, it is absolutely critical that the U.S. Department of Commerce and Ex-Im Bank sustain these programs.... These *human, "on the ground"* resources are invaluable and cannot be replaced by information that SMEs can glean from the internet. The Department of Commerce services are a very necessary and cost effective component to the contacts and knowledge that SMEs need in order to export successfully.¹¹⁰

The USCS Gold Key Matching Service provides an individualized service to match U.S. exporters to foreign customers. For a fee, USCS offices overseas can arrange business meetings with pre-screened contacts, including representatives, distributors, professional associations, government contacts, and licensing or joint venture partners.¹¹¹ In testimony to the Commission, several SME representatives reported using the Gold Key service, although some noted that the program did not seem to fit as well for service sector firms.¹¹²

The U.S. Ex-Im Bank provides access to trade finance for U.S. companies, as does the Small Business Administration. The Overseas Private Investment Corporation (OPIC) offers export insurance programs. Some of these government agencies partner with larger

¹⁰⁸ Industry representative, interview by USITC staff, New York, NY, February 17, 2010.

¹⁰⁹ Industry representative, interview by USITC staff, New York, NY, February 18, 2010.

¹¹⁰ Benson, written testimony to the USITC, January 23, 2010, 2.

¹¹¹ Additional details regarding the Gold Key service are available on the U.S. Commercial Service Web site, http://www.export.gov/salesandmarketing/eg_main_018195.asp (accessed April 15, 2010).

¹¹² USITC, hearing transcript, March 10, 2010, 222–223 (testimony of Thomas Dustman, Sunnen Products); USITC, hearing transcript, March 12, 2010, 162–163 (testimony of Leonard Felix, CID Bio-Science); USITC, hearing transcript, March 12, 2010, 55–56 (testimony of Frank Monfared, Business Solutions Group).

BOX 3.2 UPS Capital

United Parcel Service (UPS), a global logistics firm, established a trade finance subsidiary, UPS Capital, in 1998. The unit only provides trade finance loans, with approximately 80 percent of loans serving SME customers. In most cases, UPS provides loans to foreign firms to finance imports of U.S.-made goods. According to UPS, such financing provides a way for U.S. SME exporters to compete with foreign SMEs that have access to government-provided export financing.

UPS Capital fills an important market niche, since, as noted elsewhere in this study, many commercial banks prefer not to handle financing for the relatively small shipments that most SMEs export. The UPS Capital business model depends heavily on loan guarantees from the U.S. Ex-Im Bank, which apply to approximately 90 percent of UPS Capital loans. Most of the remaining loans are guaranteed by foreign country export credit agencies.

UPS Capital also offers an opportunity for UPS to cross-sell its logistics services. One key factor that lowers the trade finance risk profile for UPS, compared to commercial banks, is that the company's shipping and financial services work together. When UPS provides both types of services, the company has total control over the shipments involved, can ensure that the package is picked up and delivered as specified in contract documents, and can require payment upon delivery in the export destination. In addition, UPS financial and logistics services work together to boost the company's overall global sales.

UPS leverages its existing international sales force, which focuses on the company's logistics services, to market its financial products to both U.S. exporters and foreign buyers. UPS primarily targets U.S. companies that are already exporting to at least one market, offering them a way to expand sales by providing financing to additional customers. UPS Capital also markets through international trade shows, where it can be on-site to provide financing as soon as a connection is made between buyer and seller.

Sources: Representatives of UPS Capital, telephone interviews by USITC staff, March–April, 2010; UPS Capital Web site, <http://www.upscapital.com> (accessed April 20, 2010).

private-sector firms to provide exporting opportunities for SMEs. For example, both FedEx and UPS have partnered with the USCS to provide information on shipping and logistics services to SMEs that are considering exporting, or expanding their exports to additional countries.¹¹³

Several SMEs testified before the Commission that Ex-Im Bank financing was a significant asset in their ability to export goods or to secure contracts overseas. For example, Roeslein & Associates, an engineering and consulting services firm, noted that Ex-Im Bank programs helped it to establish letters of credit, and established very clear payment criteria, which was helpful to a small business. Ex-Im Bank financing also may have helped the firm to secure contracts in some cases where its competitors were unable to provide financing, because the Ex-Im Bank terms required purchases of U.S. goods and services.¹¹⁴

In addition to federal government programs, most states also offer export assistance programs to SMEs. For example, the Oregon Business Development Department (Business Oregon) assists local companies in marketing their goods and services at international trade shows, connects businesses with Ex-Im Bank programs, and works closely with federal government agencies to promote Oregon exports.¹¹⁵ Business Oregon also uses a credit enhancement fund through which it guarantees the principal on bank loans to SME exporters.¹¹⁶ The Massachusetts Export Center has created a program, the

¹¹³ Industry representatives, telephone interview by USITC staff, February 25, 2010; interview by USITC staff, Washington, DC, February 18, 2010; UPS and FedEx promotional materials.

¹¹⁴ USITC, hearing transcript, March 10, 2010, 226–228 (testimony of Rudi Roeslein, Roeslein & Assoc.).

¹¹⁵ USITC, hearing transcript, March 12, 2010 (testimony of Tim McCabe, Oregon Business Development Department, 11–13).

¹¹⁶ USITC, hearing transcript, March 12, 2010, 102–103 (testimony of Timothy McCabe, Oregon Business Development Department).

“Compliance Alliance,” that helps companies learn to export through seminars and networking events and ensures they comply with relevant regulations. The Massachusetts Export Center estimates that the return on investment is 88:1, as the companies that were assisted generated over \$1.5 billion in export sales in 2008, sustaining an estimated 3,000 jobs in the state.¹¹⁷

Agricultural SMEs cite U.S. government programs as an important method for overcoming domestic constraints and barriers to exporting.¹¹⁸ The FAS oversees several export assistance programs, including the Market Access Program (MAP),¹¹⁹ which is the principal USDA FAS program for promotion of small business agricultural exports.¹²⁰ Agricultural cooperatives and SMEs can apply for matching funds from the MAP Branded Program, which provides up to 50 percent of the funding for branded product promotions, with a funding limit of five years in a single country.¹²¹ Agricultural commodity and trade organizations can also apply for funds from the MAP Generic Program, which provides up to 90 percent of the funding for generic promotion of agricultural products, such as U.S. wines or U.S. cotton. Funds from both MAP programs can be used to reduce the costs of overseas marketing and promotional activities, such as trade shows, market research, consumer promotions for retail products, technical capacity building, and seminars to educate overseas customers.¹²² A number of SMEs and state government officials noted their support for the MAP program. According to the Oregon Department of Agriculture, MAP

is an absolutely critical program for us in Oregon. We ... use it extensively to support our work in international markets, and our small and medium-sized farms and processors also access this program. It is very, very important for us. It is the kind of support that we really need, and if we lost the Market Access Program, that would be a huge blow to us.¹²³

Other Strategies

Local and state governments may have other ideas for promoting exports from their regions. As one way to increase exports from the U.S. Midwest, for example, civic leaders in the St. Louis area, in cooperation with Chinese officials, created the Midwest-China Hub Commission in December 2008. The initiative, nicknamed “The Big Idea,” is

¹¹⁷ U.S. Chamber of Commerce, written testimony to the Commission, February 9, 2010.

¹¹⁸ Industry representatives, phone interviews by Commission staff, December 2009–March 2010; USITC, hearing transcript, March 12, 2010, 22 (testimony of Katy Coba, Oregon Department of Agriculture); USITC, hearing transcript, March 18, 2010, 82 (testimony of James Gore, JB Clawson International).

¹¹⁹ The MAP uses USDA Commodity Credit Corporation (CCC) funds to share the costs of overseas market research, consumer promotions for retail products, technical capacity building, and seminars to educate overseas customers.

¹²⁰ Other programs that benefit both small and large business and are administered by FAS include the Foreign Market Development Cooperator (FMD) Program and the Export Credit Guarantee (ECG) Program. The FMD program provides funds to reduce market impediments, improve the processing capabilities of importers, modify restrictive regulatory codes and standards in foreign markets, and identify new markets or uses for U.S. products. ECG also may provide commercial financing of U.S. agricultural exports.

¹²¹ This five-year funding limit was mentioned by multiple SMEs as a constraint to being able to effectively market product in certain markets. As a result, one SME only takes funding for certain markets every two to three years to try to prolong the benefits of MAP funds. Industry representative, telephone interview by USITC staff, February 17, 2010.

¹²² USITC, hearing transcript, Washington, DC, March 18, 2010, 72–79 (testimony of Jameson French, The Hardwood Federation). Industry representatives, telephone interviews by USITC staff, various dates; USDA FAS, “Market Access Program,” December 2009.

¹²³ USITC, hearing transcript, Washington, DC, March 12, 2010, 22 (testimony of Katy Coda, Oregon Department of Agriculture).

focused on creating a direct air cargo link between St. Louis and China, using St. Louis International Airport. As envisioned by supporters, the plan would expand trade between the Midwest and China; simplify transport links for local companies that now primarily depend on air cargo through Chicago and other locations; increase recognition by local companies of the potential for exports from the Midwest to China; and lead to increased employment in the Midwest and St. Louis regions.¹²⁴ These changes would particularly benefit SMEs that are likely more sensitive to transport costs, and less likely to be recognized outside their home region, than larger companies.

Investments in local infrastructure to support the plan have included a \$1 million grant from the U.S. Department of Transportation for runway development and repair at Lambert Airport, \$40 million in private investment in new air cargo distribution facilities, a \$1.7 million grant from the U.S. Department of Commerce's Economic Development Agency to conduct a feasibility analysis, and a \$1 million grant from the State of Missouri to undertake air freight-related studies. Missouri officials have also traveled to China to speak with Chinese officials and airline executives on the benefits of air cargo flights into St. Louis airports. The key to a successful St. Louis air cargo hub to China would be sufficient two-way trade. This would mean increasing U.S. exports of food (particularly beef and pork), farm equipment, and other goods manufactured in the Midwest enough to ensure that air cargo planes loaded with exports from China would head back to China with equally full loads. Other industries that are expected to benefit from the air cargo hub include biotechnology and related biological sciences, pharmaceuticals, and renewable energy, especially wind, solar, and plant-related technologies. In March 2010, the Midwest-China Hub Commission signed agreements with four Chinese air carriers to study the potential for the air cargo hub.¹²⁵

Increased use of technological tools offers a suite of potential export strategies for SMEs by assisting small firms in developing market information, making connections with customers, and reducing operational costs. One method of e-commerce that is particularly targeted at SMEs is the network market. A network market is an e-commerce platform that enables a business network, such as a chamber of commerce or a government export promotion agency, to gather the online sales catalogues of its members at a central Web site. A recognized network serves as both a familiar destination for Internet shoppers and as a guarantor of the credibility of the market participants. Such networks facilitate business-to-consumer (B2C) and business-to-business (B2B) sales, and serve as a source of promotional samples for potential customers.¹²⁶ As noted by one provider of such networks, "Network markets overcome the critical e-commerce challenge of generating the visibility and credibility that their members cannot achieve on their own," helping SMEs to assure potential foreign customers that they are trustworthy providers of goods or services, while avoiding the need for significant marketing investments to generate interest in their Web sites.¹²⁷

¹²⁴ Midwest-China Hub Commission, written testimony to the USITC, March 26, 2010.

¹²⁵ Midwest-China Hub Commission, written testimony to the USITC, March 26, 2010; industry representative, e-mail message to the USITC, April 12, 2010; Logan, "St. Louis Delegation Inks Deal with Four Chinese Airlines to Study Lambert Cargo Flights," March 28, 2010.

¹²⁶ Examples of such network markets include the World Fair Trade Organization, which provides customers access to fair trade goods around the world from a central internet location (<http://www.wftomarket.com>), and Alibaba.com (<http://www.alibaba.com>), which serves as a centralized internet marketplace for Chinese manufacturing exporters. OpenEntry.com (<http://www.openentry.com>) provides startup services for such network markets. Salcedo, written testimony to the USITC, March 19, 2010.

¹²⁷ Salcedo, written testimony to the USITC, March 19, 2010.

SME Recommendations for Increasing Exports

Of the more than 260 organizations that participated in the Commission's investigation, 35 offered suggestions for policy changes that they thought would enhance the ability of SMEs to export.¹²⁸ The suggestions are summarized in table 3.2. The three suggestions that were most frequently given to the Commission were as follows: (1) increase focus on free trade agreements (FTAs) and other trading agreements; (2) assist more with market access, particularly in India and China; and (3) offer more information, outreach, and educational opportunities related to exporting. The recommendations were, however, quite diverse, including actions at both the federal and the state government levels to help SMEs increase exports. Suggestions included simplifying U.S. export control regulations, reducing paperwork for exports of product samples, and providing more education about regulations.¹²⁹

One SME representative noted that SMEs that export to emerging markets would benefit if the Ex-Im Bank were to develop new criteria for evaluating SMEs as U.S. exporters. According to this witness, many small foreign buyers appear risky under traditional evaluation methods such as those used by Coface and Dun & Bradstreet, but where information systems are less sophisticated than in the United States, lenders such as the Ex-Im Bank should rely more on consideration of the management, character, and potential of foreign buyers, and on their plans for the financing. The witness added that USCS offices overseas could help such foreign buyers to meet these new standards, creating additional export opportunities for U.S. SMEs.¹³⁰

A number of SMEs suggested ways to make U.S. government export promotion programs significantly more helpful to SMEs. For instance, a number of SMEs noted that information on government programs can be either hard to find or overabundant, making it difficult for small business owners to sort through the various government programs and target the best ones to address their particular concerns.¹³¹ According to the National Minority Business Council (NMBC), government programs charged with reaching out to SMEs, particularly the Ex-Im Bank, could be more helpful in targeting their services to minority-owned SMEs. For example, the Ex-Im Bank could revise its risk criteria for SMEs that export to developing countries in Asia, Africa, and Latin America so that its loans can better compete with financing offered by countries such as China and India to their own SME exporters. As another example, the NMBC suggested that government agencies could make better use of ethnic-targeted media outlets or churches to reach out to minority-owned SMEs.¹³²

¹²⁸ This listing of policy recommendations offered by the SMEs does not necessarily reflect the number of organizations that raised the issue as a barrier. For example, many cited difficulty obtaining U.S. visas for staff or customers but only a few added suggestions regarding potential modifications.

¹²⁹ Sources include hearing testimony, written testimony, and interviews (in person, by telephone, and via email) with Commission staff.

¹³⁰ McLymont, written testimony to the USITC, February 9, 2010.

¹³¹ USITC, hearing transcript, Washington, DC, March 18, 2010, 202 (testimony of Maria I. Hardy, Medical, Laboratory & Technology Consultants); Foreign Trade Association, written testimony to the Commission, March 24, 2010.

¹³² USITC, hearing transcript, March 18, 2010, 66, 166 (testimony of Fritz-Earle McLymont, National Minority Business Council).

TABLE 3.2 Policy change recommendations provided by SME representatives

| | |
|---|--|
| <p>Increased focus on FTAs and other trading arrangements, including enforcement</p> | <ul style="list-style-type: none"> • Support expansion of free trade • Enforce existing trade agreements and treaty rights when violations occur • Minimize/remove/standardize import duties • Improve intellectual property rights programs and their enforcement • Develop mutual recognition agreements that incorporate credible systems for certification • Create more effective trade policies • The United States exported agricultural products under a program called Food for Peace / PL 480. This type of program could be extended to other commodities, services, products and projects using stimulus funds, potentially helping developing markets while reviving U.S. businesses in all sectors. |
| <p>More assistance with market access, particularly in India and China</p> | <ul style="list-style-type: none"> • Promote export trading companies • Organize a business association to advocate for U.S. SMEs in India • Encourage India to harmonize customs duties at the national and state level • Increase government programs that assist with representation in China • Increase flexibility of government marketing grants to match company needs and allow for local export promotion strategies • Increase niche-specific U.S. government (USG) trade missions • Strengthen programs to link U.S. SME exporters as subcontractors for larger foreign projects • At the state level, identify potential markets for SMEs and help SMEs introduce themselves to international clients through trade shows and other vehicles • Encourage the replication and expansion of successful state-level promotion initiatives • Improve the U.S. Commercial Service Gold Key program • Provide more money and assistance for export promotion • Develop a “teaming” process to match small businesses with larger firms or other small businesses • More USG funding to SMEs to help them be better positioned at foreign trade fairs • Increase USG funding for export promotion |
| <p>More information, outreach, and educational opportunities about exporting</p> | <ul style="list-style-type: none"> • Make information on the export process more readily available and visible • Increase focus on international business training at the high school and college level • Increase foreign language and trade training at the K-12 level • Create a robust worker retraining program for those who have lost jobs to imports • Provide USG investment in innovation, training, and workforce development • Focus on nontraditional export industries • Encourage diversity and ethnic outreach • Provide a comprehensive trade and tariff database for SMEs to support export opportunities (similar to what is provided to SMEs in the EU) • Provide potential SME exporters with greater export encouragement; start-up support; practical how-to counseling and training; customized help with market research, promotion and matchmaking to select the best markets and partners; negotiate and close deals, mitigate risks, and comply with requirements. |
| <p>Streamline, update, and reform export processes and export control regulations</p> | <ul style="list-style-type: none"> • Find ways to simplify the export process (streamline paperwork, licenses) • Expand the electronic export documentation systems to include supporting documentation (currently stored in paper format) to enable better tracking of the documents and to make it easier for Customs to administer export regulations; and to provide funding for Customs to expand the existing electronic system • Set up a global export license to streamline the export license process • Allow transfers of product samples without an export license • Fundamentally reform the export control system (make it speedier, update the lists more often, and add new technology as it is developed) • Give compliance education, advice, information, training, and assistance; these are critically needed to overcome fears, raise compliance levels, and minimize inadvertent violations |

TABLE 3.2—Continued

Policy change recommendations provided by SME representatives

| | |
|---------------------------|---|
| Financing | <ul style="list-style-type: none"> • Expand loan program for exports • Make grants more available • Improve the capacity and speed of Ex-Im Bank (better credit checks, faster applications, easier access) • Increase funding to the Ex-Im Bank |
| Regulations and standards | <ul style="list-style-type: none"> • Require businesses to submit to an evaluation process (to see if any U.S. company can produce the product at a competitive price) before licensing to a foreign-based competitor • Adopt protective nontariff barriers (e.g., technical standards, mandatory U.S. component integration, etc.). • Remove or oppose legislation that increases regulatory or oversight costs • Strengthen the U.S. government's relationship with the International Accreditation Forum (IAF) and involvement in International Organization of Standards (ISO) programs |
| Modify U.S. visa system | <ul style="list-style-type: none"> • Improve the visa system so that the cost and inconvenience of travel to the United States is reduced and staff and customers of foreign companies can be brought in to see U.S. companies' operations and products |
| Transportation issues | <ul style="list-style-type: none"> • Increase freight transportation efficiencies • Nurture growth of import warehouse distribution systems to naturally increase flow of empty equipment into region |

Sources: USITC, hearing transcripts, March 10, 12, and 18, 2010; written submissions to the USITC; industry representatives, interviews with USITC staff, December 2009–April 2010.

CHAPTER 4

Views of SMEs on Barriers to Exports: Industry Case Studies

Introduction

As illustrated in the previous chapter, SMEs face a wide variety of domestic and foreign barriers which industry representatives have identified as constraints on exporting. The Commission identified seven industries from the agriculture, manufacturing, and service sectors likely to offer deeper insights into significant export barriers, as reported by industry representatives (table 4.1). These industries include apples, wine, certain high-technology industries, textiles and apparel, medical devices, computer services, and professional services. SMEs are well represented and are competitive actors in all of these industries.¹

Apple Industry

Industry Background

The U.S. apple sector consists of approximately 7,500 apple growers, as well as fruit packers and marketers. While most of the firms in the industry are SMEs, the industry has consolidated significantly over the past decade. As a result, in the Pacific Northwest, the 14 largest fruit marketers handle about 90 percent of all tree-fruit exports.² Despite the consolidation, almost all apple producers and exporters have fewer than the equivalent of 500 full-time employees, including most of the fully integrated marketers of apples that own and operate their own growing, packing, and marketing ventures. As a result, SMEs account for almost all of the industry's exports. Washington State is the largest apple producer in the country, generally accounting for almost 60 percent of national production.³ Other significant producing states include New York and Michigan, but Washington exports a much larger share of its production (about 30 percent) and accounts for the majority of apples exported nationally.⁴

Exporting plays an important role for the U.S. apple industry, especially for the export-oriented state of Washington. How apples are exported depends on how vertically integrated the firm is, a factor which can vary significantly in the apple industry. After harvest, apples are transported from the orchard to the packinghouse for washing, sorting, and packing. Once prepared by the packinghouse, the fruit is sold internationally through independent brokers, the packing facilities' in-house sales staff, a parent company's marketing arm, or separate, independently owned fruit marketing firms. Some packers are vertically integrated and source a large percentage of their apples from

¹ As in chapter 3, the information presented in this chapter reflects the views of SME representatives who were able to meet or speak with Commission staff. The Commission has not corroborated this information.

² The largest marketers of U.S. apples typically handle and market other tree fruits as well, such as pears and cherries. Industry representative, email message to USITC staff, January 14, 2010.

³ USDA, NASS, *Noncitrus Fruit and Nuts 2010 Summary*, January 2010, 11.

⁴ Steward, "Chile Is the Most Competitive," January 1, 2008, 12.

TABLE 4.1 Key findings on export barriers and suggested strategies to overcome those barriers, selected industries

| Industry | Barriers | Strategies |
|-----------------------|---|---|
| Apples | <ul style="list-style-type: none"> The major factors restricting exports of apples by U.S. SMEs are access to capital and financing restrictions, small volumes, inadequate product varieties, and limited sales staffs and resources dedicated to exporting. Sanitary and phytosanitary (SPS) measures are the primary barriers to certain foreign markets for all producers. However, SPS protocols have a greater impact on smaller producers, who cannot spread the costs of implementing those protocols over a larger volume of produce. | <ul style="list-style-type: none"> The strategies used by the U.S. apple industry to overcome these barriers include consolidating the product through larger packers and marketers, to increase exporters' product offerings and minimize risk; creating industry associations that provide market research, promotion, and services to resolve international trade issues; and using promotion programs and services provided by various U.S. government programs and agencies. |
| Wine | <ul style="list-style-type: none"> Major domestic factors that constrain U.S. exports of SME wine are a lack of resources dedicated to exporting; relatively small-scale production; and a primary focus by SMEs on the U.S. market. Foreign barriers include high tariffs and trade agreements between competitor nations; compliance issues, including SPS measures and labeling regulations; limited knowledge of U.S. wine in foreign markets; longer contract terms; and a higher level of support provided by competitor nations to their wine sectors. | <ul style="list-style-type: none"> Strategies used by U.S. wine SMEs to overcome many impediments to exporting include organizing themselves into regional industry groups to pool resources dedicated to market research, product promotion, and identification of potential export customers; and using U.S. government export promotion programs, including the USDA Market Access Program (MAP). SMEs also are increasingly employing agents and brokers that specialize in foreign markets to gain export market share. |
| High-tech industries | <ul style="list-style-type: none"> Chemical and nanotechnology SMEs are particularly affected by U.S. export controls, U.S. state and federal environmental and health regulations (particularly for new products such as nanomaterials), and transportation costs. REACH (the new EU chemical regulatory system), EU directives and labeling requirements, and EU member state requests for additional product information are considered major trade barriers for chemical and nanotechnology SMEs. | <ul style="list-style-type: none"> To overcome export barriers, chemical and nanotechnology SMEs often approach issues together with other SMEs to share costs and risk and to maximize market presence. SMEs also make use of U.S. Department of Commerce export promotion programs. |
| Textiles and apparel | <ul style="list-style-type: none"> The most significant challenges for textile and apparel SME exporters are identifying potential foreign customers, understanding customs and foreign regulations, and receiving payment from foreign customers. | <ul style="list-style-type: none"> U.S. textile and apparel firms compete best internationally when they are highly automated and when they either address niche markets or can compete on quality. Making contacts through trade shows and fairs, associations, trade groups, partnering, and government programs is also useful. |
| Medical devices | <ul style="list-style-type: none"> The principal domestic and foreign barriers for SMEs seeking to export medical devices include complex regulatory procedures, lack of access to capital, and inadequate reimbursement from foreign health insurers. | <ul style="list-style-type: none"> U.S. medical device SMEs' chief export strategies include seeking financing from venture capital firms, working with the U.S. Commercial Service and private consulting firms to explore market opportunities abroad, and exporting into the EU before pursuing other markets. |
| Computer services | <ul style="list-style-type: none"> Barriers to exports faced by computer services SMEs include export controls on encryption software, access to export finance, regulations on data security, and language barriers. | <ul style="list-style-type: none"> Export strategies used by computer services SMEs include partnering with other firms and adopting innovative pricing models that mitigate the risk of nonpayment. |
| Professional services | <ul style="list-style-type: none"> Barriers to exports confronting professional services SMEs include limited availability of skilled workers, cultural and language barriers, and nontransparent regulation in many foreign countries. | <ul style="list-style-type: none"> Export strategies used by professional services SMEs include leveraging relationships with larger firms, joining networks of SMEs, seeking employees with international experience, and promoting U.S. codes and standards abroad. |

Sources: Hearing testimony, written submissions, e-mails, and interviews (in person and by telephone) with Commission staff.

growing operations they own, while other packers source primarily from independent growers. Many of the marketing firms that export are fully integrated and own both packing and growing operations, but they also market significant quantities from other independent packers. Almost all of these fully integrated marketers are SMEs.

Domestic Barriers to Exporting

The major domestic barriers that restrict exports of apples by U.S. SMEs are limited availability of capital and trade finance, small volumes and inadequate product varieties, and limited sales staffs and resources dedicated to exporting. Both limited finance options and capital restrictions inhibit U.S. apple exports. Trade finance is an issue of particular concern to SME exporters. While some U.S. exporters require a full cash payment before shipping their product, others require only a certain percentage of the payment in advance. This percentage often fluctuates depending on the perceived risks associated with the export market and whether or not the exporter has a previously established relationship with the importer. For example, an apple exporter may require an importer in Russia to pay 80 percent of the sale price in advance, while only requiring 60 percent up front for an importer in the United Kingdom.⁵

Because of the relatively low profit margins in the industry, many exporters have limited working capital available to finance sales and, as a result, their ability to extend credit to customers is restricted. Industry officials have suggested that if they were able to extend more credit and require a smaller percentage of the total sale price to be paid in advance, they would be able to expand export sales.⁶ Larger firms with higher revenues and more capital are generally more willing to risk selling product to new buyers that they are unfamiliar with, while smaller packers often are not. Certain apple exporters stated that programs such as the U.S. Department of Agriculture (USDA) Export Credit Guarantee Program (GSM-102) and the Supplier Credit Guarantee Program have been used in the past to overcome some of these financing limitations, but the programs lacked both efficiency and funding and are now rarely used.⁷

Smaller volumes and an inability to consistently provide the varieties and sizes demanded by importers prevent apple exporters from expanding export sales. Demand for apples is constantly evolving and varies significantly by region and country. Certain markets demand particular varieties, such as Granny Smith or Red Delicious, while others prefer specific sizes. Some exporters occasionally have to turn down orders when they are unable to meet certain specifications.⁸ In addition, packers may not produce the quantity of apples needed to supply large-scale importers with consistent shipments throughout the year. This results in lost business for U.S. apple exporters. While marketers often combine the product of multiple packers in order to increase their product offerings, industry officials have stated that expanding their growing operations would allow them to overcome some of the supply barriers.⁹ However, because of the low margins in the industry, they do not have the needed capital and cannot get the low financing rates that would make expansion affordable.¹⁰

⁵ Industry representative, telephone interview by USITC staff, January 21, 2010.

⁶ Industry representatives, telephone interviews by USITC staff, December 2009–February 2010.

⁷ Industry representatives, telephone interviews by USITC staff, January 19–21, 2010.

⁸ Industry representatives, telephone interviews by USITC staff, December 2009–February 2010.

⁹ Ibid.

¹⁰ Industry representative, telephone interview by USITC staff, January 21, 2010.

Small sales staffs and limited resources prevent many apple SMEs from expanding their exports.¹¹ Many of the packers and marketers have sales staffs that focus on specific export markets with established importers. Developing a new market requires allocating a tremendous amount of resources in terms of money and staff time. In order to expand into a new foreign market, an exporting firm must conduct extensive market analysis so that it can be familiar with the demand preferences, the distribution system, and the infrastructure of the country. In addition, resources have to be allocated towards marketing the product to new potential importers and retailers. This requires significant resources that many SMEs do not have, thereby reducing many exporters' ability to expand into new markets.¹²

Foreign Barriers to Exporting

According to many U.S. apple exporters, the principal nontariff barriers preventing the expansion of U.S. apple exports are sanitary and phytosanitary (SPS) measures, which are meant to prevent the importation of pests and diseases. Apple exporters are required to follow ever-changing SPS protocols¹³ in order to gain access to international markets. These protocols might require, for example, field inspection, fumigation, and cold treatment, as well as maximum pesticide residue levels.¹⁴ Some countries' protocols are stricter than those commonly applied internationally and can keep U.S. apples out of a market altogether. Because SPS rules vary significantly based on the country, establishing preventative protocols to meet the requirements is a complicated process that can add significant costs for growers. Due to SMEs' limited resources and smaller scales of production, these requirements affect smaller growers and packers more than larger operations, since the latter can spread the costs of implementing those protocols over a larger volume of produce.¹⁵

SME Strategies for Exporting

The U.S. apple industry has developed a number of methods to overcome many export barriers. Strategies include the consolidation of the product through larger packers and marketers, which increases exporters' product offerings and minimizes risk for smaller firms; creating industry associations that provide market research, promotion, and services to resolve international trade issues; and using promotional programs and services provided by various U.S. government programs and agencies.¹⁶

Packers and marketers source apples from their own growers, from independent growers, and from other packers. This allows exporters to increase their ability to meet customer demands in terms of varieties and sizes, while also allowing them to supply more consistent volumes throughout more of the year. Smaller apple packers who may not have the resources to export to certain markets also sell their product to larger marketers in order to minimize their exposure to the risks that arise when exporting apples.¹⁷

¹¹ Industry representatives, telephone interviews by USITC staff, December 2009–February 2010.

¹² Ibid.

¹³ For example, SPS protocols might change in response to newly developed chemicals used for apple fumigation.

¹⁴ USDA, APHIS and BAPHIQ, "Systems Approach Work Plan for the Exportation of Apples from the United States into Taiwan," June 25, 2008; Northwest Horticulture Council Web site, *Export Manual*, <http://www.nwhort.org/countries-toc.html>.

¹⁵ Industry representatives, telephone interviews by USITC staff, December 2009–February 2010.

¹⁶ Ibid.

¹⁷ Ibid.

Despite the fact that even the larger packers and marketers are still small in size, the packing and marketing sector of the industry has consolidated over the last decade and, as a result, the industry is becoming increasingly vertically integrated.¹⁸ As this process has unfolded, it has become more common for smaller packers to sell their product through the larger exporting firms.

Apple growers and marketers have created a number of industry associations, such as the Northwest Horticulture Council (NHC) and the Washington State Apple Commission (WSAC), that provide valuable resources and assist in selling their product abroad. The NHC focuses on international policy issues, such as SPS barriers, while the WSAC deals primarily with promotion and market development for the Washington apple growers. The WSAC is funded entirely by growers through assessments on their fresh apple shipments. The NHC is also funded entirely through assessments to its members, which include, among others, the WSAC and the Washington State Fruit Commission. Given that many firms have limited resources to expand into new markets, the WSAC has representatives on the ground in countries throughout the world that not only promote U.S. product to increase exports, but also provide valuable information to U.S. producers with respect to the foreign market, supply chains, and importers.¹⁹

Many U.S. apple producers also take advantage of various government programs to overcome barriers in certain markets. For example, funding from the USDA Market Access and Promotion (MAP) program is used to share the costs of overseas marketing and promotional activities. These activities expand foreign export markets by targeting market constraints and new sales opportunities. In addition, officers from USDA's Foreign Agricultural Service (FAS) who are posted in foreign markets are often called on by individual exporting SMEs to gather first-hand, up-to-date information on the market.²⁰

Wine Industry

Industry Background

The U.S. wine industry is dominated by SMEs. U.S. wineries numbered nearly 7,000 in 2010,²¹ and the overwhelming majority of the wineries (over 90 percent) are small operations, most employing 50 or fewer employees, although approximately 12 wineries employed over 500 employees.²² The rest are medium-sized wineries with 200–350 employees. Industry sources estimate that SMEs accounted for approximately 40 percent of the value of domestic production and 20–30 percent of total wine exports in 2009.²³ California is the center of the U.S. wine sector, accounting for over 90 percent of U.S. wine production (by volume and value) and 95 percent of total U.S. wine exports.²⁴

¹⁸ For example, in Washington State alone, the total number of packers reportedly declined from 44 in the late 1990s to 24 in 2008. Industry representative, telephone interview with USITC staff, August 20, 2008.

¹⁹ Industry representatives, telephone interviews by USITC staff, December 2009–February 2010.

²⁰ Industry representatives, telephone interviews by USITC staff, January 21–22, 2010.

²¹ As of January 2010, the total number of U.S. wineries (producers and blenders) was 6,746. California was home to 2,939 wineries (56 percent of total). Alcohol and Tobacco Tax and Trade Bureau, *FOIA*.

²² Industry representative, interview by USITC staff, Washington, DC, February 4, 2010.

²³ USITC, hearing transcript, March 18, 2010, 77 (testimony of James Gore, JBC International); industry representatives, telephone interview by USITC staff, February 4, 2010.

²⁴ Wine Institute, *Industry Profile*.

Approximately 200 U.S. SME wineries regularly export, and exporting is an integral part of their business plans. Another 200 wineries export intermittently by filling occasional export orders.²⁵ U.S. SME wineries supply a wide variety of foreign market segments including the hotel, restaurant, and bar sectors, as well as specialty stores and private clients. Some of the larger medium-sized wineries supply supermarket chains in certain markets. The United Kingdom, Canada, Mexico, and Japan are the largest export markets for U.S. wine, while the leading developing markets are located in Asia, such as China and South Korea.

Domestic Barriers to Exporting

The major domestic factors that constrain U.S. exports of SME wine are a lack of resources dedicated to exporting; relatively small scale production, largely consisting of high value products; and a primary focus by SMEs on the U.S. market. Industry representatives reported that domestic factors are just as important as foreign barriers in limiting exports.²⁶

The leading factor limiting U.S. SME wine exports, according to industry sources, is a lack of resources, primarily time and personnel, dedicated to exporting. According to industry representatives, significant resources are required to conduct market research, identify potential customers, vet creditworthiness of potential partners, negotiate export contracts, research foreign compliance and other regulatory requirements, and coordinate shipping logistics.²⁷ According to one industry source, “many [SME wineries] have an office staff of only 5 or 6 people;” they lack the time and staff necessary to handle the relatively more time consuming requirements of exporting.²⁸

Another key domestic factor limiting U.S. SME exports is the relatively small volumes and high value of most SME wine. Manufacturing in relatively small batches, SMEs generally have higher per unit production costs relative to large wineries that benefit from economies of scale. Moreover, SMEs cannot supply substantial volumes at “very aggressive prices” and cannot compete in certain export market segments that are dominated by very large international producers. According to industry representatives, SMEs are not competitive in supplying the largest segment of the international wine trade—large off-premise establishments, mainly supermarkets that purchase wine in substantial volumes, including bulk wine, at very low prices. SMEs also face higher per capita shipping, logistics, compliance, and insurance costs, which also raise their prices and affect their competitiveness in foreign markets.²⁹

The relatively small scale of SMEs also contributes to the risk exposure they face in export transactions. According to an industry representative, if a transaction “turns sour,” which is a concern in certain export markets, SMEs proportionately have a greater share of their production at risk.³⁰ Moreover, because “the exporting chain is not seamless,” problems such as customs delays or last-minute compliance issues can arise. SMEs

²⁵ Industry representative, interview by USITC staff, Washington, DC, February 4, 2010.

²⁶ Industry representatives, telephone interviews by USITC staff, February 4–19, 2010.

²⁷ Ibid.

²⁸ Industry representative, telephone interview by USITC staff, February 11, 2010.

²⁹ Compliance costs include meeting foreign market sanitary and phytosanitary regulations and certifications. Examples include laboratory tests and producing and applying special labels to meet export market regulations. Industry representative, interview by USITC staff, Washington, DC, February 4, 2010.

³⁰ Industry representative, telephone interview by USITC staff, February 11, 2010.

typically do not have the personnel or expertise compared to large wineries to efficiently deal with the problems that can occur in the export process.³¹

Another factor that inhibits SME exports is the sector's focus on the U.S. domestic market, the world's largest and most lucrative wine market.³² Because of the additional time, resources, and expense required for exporting, most U.S. SMEs focus on the U.S. market. The relatively small volumes produced by most SMEs easily can be marketed to domestic purchasers at lower transaction costs (higher profits) than to international markets.³³ Only a small number of non-California SME wineries reportedly export. For many SME wineries, it is much easier and more profitable to sell at a winery tasting room or into the local, regional, or national supply chain than it is to export.³⁴ Moreover, many U.S. SMEs have volume constraints and do not have the ability to expand capacity to supply foreign markets.³⁵

Foreign Barriers to Exporting

Foreign factors and trade measures that affect U.S. SME wineries include high tariffs and trade agreements entered into by competitor nations; compliance issues including SPS measures and labeling regulations; a lack of knowledge of U.S. wine in foreign markets; longer contract terms; and a greater level of support provided by competitor nations to their wine sectors. Although these factors affect all exporters, they can have a disproportionately negative effect on SME exporters.³⁶

A major factor limiting SME exports is high foreign tariffs, particularly duties imposed on an ad valorem (value) basis. Because most SMEs ship relatively high value wine, tariff costs per unit can be greater for SMEs. High tariffs reportedly price many SME wines out of large segments of export markets or out of markets entirely. Large wineries that export substantial volumes reportedly cut prices in order to sell more units; most SMEs do not have the volume or economic power to cut prices or profit margins in order to gain market share.³⁷

U.S. free trade agreements (FTAs) can have a beneficial effect on SME wine exports by lowering tariff barriers to SME exports; however, industry representatives noted that many U.S. FTAs (with the exception of NAFTA) have been established with countries that are relatively small wine markets.³⁸ At the same time, FTAs negotiated by other foreign suppliers can have a negative impact on U.S. wine exports. Many major competitor nations, including Chile, Australia, and the European Union (EU), have aggressively negotiated FTAs in key export markets such as Japan, China, and Korea;

³¹ Industry representative, interview by USITC staff, Washington, DC, February 4, 2010.

³² In 2009, U.S. imports of wine were \$3.9 billion. GTIS (accessed March 2, 2010).

³³ Industry representative, telephone interview by USITC staff, February 11, 2010.

³⁴ Industry representatives estimate that less than 5 percent of SME wineries export annually. For those wineries that export, an estimated 90–95 percent of their output is marketed in the domestic market. Of the 1,100–1,200 Northwest (Washington and Oregon) wineries, approximately 65–75 export in any given year, while about 20 to 30 wineries regularly export. New York wineries are primarily focused on the domestic market with approximately 85–90 percent of their output sold at the winery. Industry representatives, telephone interviews by USITC staff, February 10, 11, and 16, 2010.

³⁵ Industry representative, telephone interview by USITC staff, February 11, 2010.

³⁶ See the forthcoming USITC study, "U.S. Exports from Small and Medium-Sized Enterprises: Characteristics and Performance," for further discussion of ways certain barriers to exports disproportionately affect SMEs, compared with larger companies.

³⁷ Industry representative, interview by USITC staff, Washington, DC, February 4, 2010.

³⁸ USITC, hearing transcript, March 18, 2010, 96 (testimony of James Gore, JBC International); industry representative, telephone interview by USITC staff, February 16, 2010.

according to an industry source, this situation “creates an uneven playing field” for U.S. wine exporters.³⁹

In many foreign markets, SPS measures take the form of laboratory analyses to determine if the wine is consistent with its label, including the grape variety, or does not contain prohibited additives or chemicals. These fixed costs can be more expensive for small volume SME exporters.⁴⁰ For example, in an export market, 10 certification certificates may be required for 20 cases of wine, while the same country may require 20 certificates for 20,000 cases.⁴¹

Moreover, in many instances foreign compliance regulations require “a lot of additional paperwork,” which discourages SMEs from exporting.⁴² For example, in order to supply certain retail establishments in the United Kingdom, exporters must join Sedex, a business organization that requires its members to submit a number of time-consuming forms.⁴³ This requirement reportedly dissuades SMEs from entering this market segment.⁴⁴ Certain compliance regulations can also raise costs for SMEs because the standards differ from U.S. standards. For example, some markets in the EU will only accept six-bottle cases, while the typical case size in the U.S. market is a dozen bottles. This requires exporters to purchase special boxes, which increases costs.⁴⁵

SMEs are also less likely to be familiar with differing SPS requirements and other compliance standards that can vary from market to market. For example, there are widely varying standards for maximum residue levels of certain chemicals. There have been instances where SME shipments had to be recalled because lab analysis indicated the presence of a prohibited chemical. Moreover, SMEs are primarily focused on producing to U.S. standards. Large wineries that regularly export substantial shipments to particular markets have the knowledge and experience of foreign market regulations and can more easily manufacture to foreign standards, while this would be prohibitively costly for most SMEs.⁴⁶

U.S. SME exporters also reported that many importers and retailers in foreign markets have limited knowledge of U.S. wine, which can dampen foreign demand for SME wine. According to industry sources, there is a general lack of knowledge abroad about U.S. winegrowing regions, except for California. Retailers in foreign markets often are unfamiliar with wine produced in other states, including Washington, Oregon, or New York.⁴⁷ Moreover, the perception of California wine in many export markets is limited to two extremes: either large-volume, aggressively priced wine or very limited volume,

³⁹ Although the United States has signed an FTA with Korea, the agreement has not been ratified. Other major wine exporters, such as Chile and the EU, signed FTAs with Korea after the United States did, but have already ratified the treaties and currently have preferential access to the Korean wine market. USITC, hearing transcript, March 18, 2010, 97 (testimony of James Gore, JBC International); industry representative, telephone interview by USITC staff, February 19, 2010.

⁴⁰ Certain markets allow self-certification, which is what U.S. standards call for, but others require third-party certification, which can be costly. Industry representative, telephone interview by USITC staff, February 11, 2010; industry representative, interview by USITC staff, Washington, DC, February 4, 2010.

⁴¹ Industry representative, interview by USITC staff, February 4, 2010.

⁴² Industry representative, telephone interview by USITC staff, February 19, 2010.

⁴³ Sedex (Supplier Ethical Data Exchange) is “a membership organization for businesses committed to continuous improvement of the ethical performance of their supply chains.” Sedex Web site. <http://www.sedex.org.uk/sedex/go.asp?u=/WebSite/Home&pm=6&location=About>

⁴⁴ Industry representative, telephone interview by USITC staff, February 19, 2010.

⁴⁵ Ibid.

⁴⁶ Industry representative, telephone interview by USITC staff, February 10, 2010.

⁴⁷ Industry representatives, telephone interviews by USITC staff, February 10 and 11, 2010.

exceptionally high-value wine, which cuts sales of medium-value wines produced by certain SMEs. It was also reported that many importers carry just one brand of California wine and “think they have the market segment covered,” which further limits the opportunities for SME exporters.⁴⁸

Other factors noted by U.S. industry representatives that inhibit U.S. SME wine exports include problematic financing terms and foreign government support of SMEs. Long financing terms for exports are generally not a problem for medium-sized SMEs, but can discourage small SMEs with tighter budgets. For example, payment terms for most foreign sales are 90–120 days, while domestic terms are usually 30 days.⁴⁹ Industry representatives also commented that SME wineries abroad, including those in the EU, Australia, and South Africa, receive substantially greater levels of government marketing and other support compared with U.S. wine sector SMEs, which improves foreign wineries’ competitiveness in third-country markets.⁵⁰

SME Strategies for Exporting

Strategies used by U.S. wine SMEs to overcome many of these impediments to exporting include organizing into regional industry groups to pool resources dedicated to market research, product promotion, and identification of potential export customers. These nonprofit private sector organizations use export programs and other assistance offered by certain U.S. government agencies, including promotional funding provided by the USDA MAP program.⁵¹ SMEs also increasingly employ agents and brokers that specialize in foreign markets.

Regional wine organizations are a critical source of information and assistance for SMEs that export. They include the Wine Institute, which represents California wineries; the Northwest Wine Coalition, made up of Washington and Oregon wineries; and the New York Wine and Grape Foundation.⁵² These organizations provide export-related services and promotion, primarily funded by the USDA MAP program. According to an industry representative, MAP-funded programs do all the “legwork and research [for exporting] that SMEs cannot afford.”⁵³

The Wine Institute, the largest such group, employs representatives in most major export markets that work with California wineries to find buyers and importers and help with issues that arise in the exporting process. The Wine Institute and other regional organizations participate in international wine trade shows, organize promotions and tastings in foreign retail and on-premise establishments,⁵⁴ sponsor delegations to visit export markets, and host buying delegations that visit the United States.⁵⁵

⁴⁸ Industry representative, telephone interview by USITC staff, February 19, 2010.

⁴⁹ Ibid.

⁵⁰ USITC, hearing transcript, March 18, 2010, 78 (testimony of James Gore, JBC International); industry representative, telephone interview by USITC staff, February 16, 2010.

⁵¹ In fiscal year 2010, the MAP program provided over \$8 million for U.S. wine export promotion activities. See the discussion of the agriculture sector at the beginning of this chapter.

⁵² There are some sub-state regional organizations that promote regional wine, such as the Napa Valley Vintners Sonoma County Vintners Associations. Industry representative, interview by USITC staff, February 16, 2010.

⁵³ Industry representative, telephone interview by USITC staff, February 11, 2010.

⁵⁴ These are establishments where wine is consumed on the premises, such as bars and restaurants.

⁵⁵ Industry representatives, telephone interview by USITC staff, February 4, 2010.

The MAP program funds two wine-specific programs: generic regional promotion (for example, the Wine Institute's international efforts to promote California wine); and a brand program that funds promotion of a specific winery's products. The brand program is available only to SMEs (wineries that have 500 or fewer employees). Other U.S. government assistance available to SMEs is provided by the USDA's Foreign Agricultural Service, which publishes wine market reports and maintains staff around the world that assist exporters, and the International Trade Division of the U.S. Treasury Department's Alcohol and Tobacco Tax and Trade Bureau, which handles and negotiates many alcohol-related international compliance issues.⁵⁶

Many U.S. SME wineries also use brokers or agents to facilitate exports. Brokers match wineries and importers (foreign buyers), monitor the marketing and sale of their clients' products, and advise wineries on foreign compliance requirements, such as laboratory certification and labeling.⁵⁷ They typically maintain a range of styles and vintages from a variety of wineries in their portfolios, and may focus on particular producing regions (such as California or Washington) and markets (such as the United Kingdom or Latin America). They also serve as a liaison between wineries and foreign buyers, including advising foreign buyers on current and future availability of their client's wine and prices.⁵⁸ Brokers representing U.S. wineries are mostly located in the United States and can range in size from an individual to a small firm. The use of brokers has increased substantially in the past decade as SME exports have expanded. Some wineries use brokers to facilitate all their exports, while others use brokers for particular markets or regions where they do not have contacts or exporting relationships.⁵⁹

High-Technology and Related Manufacturing Industries: Chemicals and Nanotechnology

Industry Background

Exports are an essential component of growth for many high-technology SMEs, particularly those in the chemical industry and those involved in nanotechnology. The chemical manufacturing industry (NAICS 325)⁶⁰ produces a wide variety of products, ranging from commodity chemicals to specialty end products such as pharmaceuticals, pesticides, adhesives, and resins. Chemicals were the third largest SME export product class in 2007.⁶¹ Nanotechnology is the application of science and engineering at the nanoscale in a wide variety of sectors to create novel products, tools, and technologies using unique properties of matter that emerge at that scale.⁶² A number of nanotechnology SMEs are beginning to commercialize and export product along the entire value chain, ranging from upstream nanomaterials (e.g., carbon nanotubes) to

⁵⁶ USITC, hearing transcript, March 18, 2010, 163 (testimony of James Gore, JBC International).

⁵⁷ Industry representatives, telephone interviews by USITC staff, February 11 and 16, 2010.

⁵⁸ Industry representative, telephone interviews by USITC staff, February 16, 2010.

⁵⁹ Ibid.

⁶⁰ The North American Industry Classification System (NAICS) codes define industries for statistical purposes.

⁶¹ Official Census statistics; USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, January 2010, 3-10-3-11.

⁶² The nanoscale ranges from about 1 nanometer to about 100 nanometers (a nanometer is one-billionth of a meter). Products incorporating nanomaterials and processes include advanced composites, high-performance batteries, automotive electronics in hybrid vehicles, and cancer treatments, among others.

downstream products such as solar cells, pharmaceuticals, and cosmetics.⁶³ Some SMEs that have developed specialized products very early in the companies' existence and export them to a few customers worldwide have been characterized as "born global" SMEs.⁶⁴

Domestic Barriers to Exporting

Although subject to many of the same domestic constraints as other manufacturers, chemical and nanotechnology SMEs are particularly affected by export controls (see box 4.1), environmental and health regulations, and transportation costs, given their limited personnel and monetary resources. Several nanotechnology SMEs cited both the lack of a U.S. or international definition for carbon nanotubes, making compliance difficult, and EPA's precautionary approach towards new uses for nanomaterials (e.g., antimicrobial nanosilver). This approach has reportedly led EPA to stop accepting new applications for certification despite ongoing shipments by incumbent suppliers, resulting in lost U.S. jobs at one SME and decreased innovation in nanomaterials.⁶⁵

Several nanotechnology SMEs and other sources also cited concerns about limited availability—and their subsequent import dependence—of certain minerals and metals, particularly indium and rare earths, which are critical inputs used to manufacture high-technology products for export.⁶⁶ Given China's dominant position in world production of both, some U.S. SMEs say that China's export restrictions create a competitive disadvantage and promote uncertainty as to product development; one nanotechnology SME also said that a lack of access to rare earths could result in the closure of his company.⁶⁷

Transportation costs and limited container availability were also reported as domestic constraints on exports, particularly for chemicals. Whereas high-volume products are generally shipped via ocean freight, higher-value, low-volume products such as

⁶³ Shapira, "Nanotechnology Innovation," March 9–10, 2010. Based on publications and patents, Shapira estimates that about 4,300 nanotechnology U.S. SMEs were active between 2000 and 2008; however, he notes that many of the earlier firms may no longer be in business and, as companies can have multiple patents and/or papers, the activity levels may be overstated. Shapira, e-mail to USITC staff, March 16, 2010. For more information about the methodology and other caveats, see Shapira, "US Firms Entering the Nanotechnology Domain, 2000–2008," March 24–26, 2010. Other sources estimate that 750–1,000 nanotechnology SMEs were operating in the United States in 2009. Industry representative, e-mail to USITC staff, March 25, 2010.

⁶⁴ Shapira, "Nanotechnology Innovation," March 9–10, 2010.

⁶⁵ USITC, hearing transcript, March 10, 2010, 213–17 (testimony of Karen Bomba, Zoltek Corp.); USITC, hearing transcript, March 12, 2010, 156–59 (testimony of Robert D. "Skip" Rung, Oregon Nanoscience and Microtechnologies Institute); USITC, hearing transcript, March 18, 2010, 15–16 (testimony of the Honorable Donald A. Manzullo, U.S. Representative, 16th District, Illinois); and 53–55 (testimony of Peter C. Dent, Electron Energy Corp.); industry representatives, interviews with USITC staff, January–March 2010; telephone interviews with and e-mail to USITC staff, February 5, 18, and 19, 2010.

⁶⁶ Indium-tin oxides are components of transparent electrodes used in liquid crystal displays and solar cells; researchers are studying ways to substitute carbon nanotubes for these oxides. Rare earths are used in defense and in green technologies (e.g., each electric motor on a Toyota Prius uses 2 to 4 pounds of neodymium, a rare earth). World Trade Organization (WTO), "Trade in Mineral Resources," January 2010, 25; USITC, hearing transcript, March 18, 2010, 50 (testimony of Peter C. Dent, Electron Energy Corp.); Korinek and Kim, "Export Restrictions," 9; Halada, March 2009; industry representative, e-mail to USITC staff, March 11, 2010.

⁶⁷ Korinek and Kim, "Export Restrictions," 4, 9, 26; USITC, hearing transcript, March 18, 2010, 50 (testimony of Peter C. Dent, Electron Energy Corp.); Bradsher, "Backpedaling," *The New York Times*, Sept. 4, 2009, B4; USITC, hearing transcript, March 18, 2010, 49–53 (testimony of Peter C. Dent, Electron Energy Corp.); industry representative, interview with USITC staff, March 17, 2010.

BOX 4.1. SME exporters challenged by export control regulations

Because many of the export control laws were drafted before nanotechnology products and processes were developed and commercialized, it is often unclear how the regulations apply to these products (or to other emerging technology products). SMEs and other sources have recommended that updates be speedier and address new technologies.

In interviews with USITC staff, several nanotechnology and other high-technology SMEs cited significant costs and expenses incurred due to export controls. Examples cited include \$3 million–\$5 million in lost sales for one nanotechnology company; a reduction of 50 percent in one high-technology company’s military-related exports; an increase in annual licensing fees for one firm to about \$50,000 in 2009 (almost 3,000 percent); export control costs of \$3,000 on a one-time contract valued at \$10,000; product price increases of as much as 200 percent; and lost work for companies. A U.S. company reported that it exports from its facility in Hungary rather than its home facility in the United States, despite higher shipping costs, because of the relative ease and speed of obtaining export control licenses in Hungary.

Numerous sources have stated that foreign customers prefer not to deal with U.S. licensing requirements, and thus often prefer suppliers based outside the United States. Some foreign suppliers are said to advertise that they are not bound by such export controls (e.g., advertising that they are “ITAR-free”). U.S. SMEs have suggested that they might be able to significantly increase their exports if the export control regulations could be simplified.

Reflecting ongoing concern in the Administration about this issue, Secretary of Defense Gates announced on April 20, 2010, an Administration proposal to simplify the system. The Administration will work with Congress on this effort and plans to initiate the reform over the coming year, with the goals of creating a single export control list, a single licensing agency, a single enforcement/coordination agency, and a single information technology system.

Sources: Joiner, “Dual-Use Export Controls on Nanotechnology,” Spring 2008; USITC, hearing transcript, March 18, 2010, 15–16 (testimony of Honorable Donald A. Manzullo, United States Representative, 16th District, IL), 53–55 (testimony of Peter C. Dent, Electron Energy Corporation), and 91–93, 139, 152–155 (questions and responses); USITC, hearing transcript, March 12, 2010, 35 (testimony of Walter Evans, Schwabe, Williamson & Wyatt) and 123–26 and 184–5 (questions and answers); USITC, hearing transcript, March 10, 2010, 213–17 (testimony of Karen Bomba, Zoltek Corp.); industry representatives, telephone interviews with USITC staff, November 19, 2009, and February 5, 2010, e-mails to USITC staff, February 18–19, 2010, and interviews with USITC staff, January–March 2010; the Coalition for Security and Competitiveness, written testimony to the USITC submitted by Peter Dent, filed March 26, 2010; Garamone, “Gates Proposes Revamp of Export System,” April 20, 2010; Gates, remarks, April 20, 2010.

pharmaceuticals are more likely to be shipped by air. Chemical SMEs state that shipping can potentially add as much as 50 percent to a product’s price; small shipments to markets such as the EU can cost 300–500 percent more than containers.⁶⁸

Foreign Barriers to Exporting

As with domestic factors, high-technology SMEs are generally affected by many of the same export constraints—such as market access concerns and financing—reported by other manufacturing companies. However, REACH, the new EU chemical regulatory system (see box 4.2), is considered a major trade impediment by many chemical and nanotechnology SMEs, as are EU directives, EU labeling requirements, and EU member

⁶⁸ Industry representatives, interviews with and e-mails to USITC staff, January–March 2010. USITC, hearing transcript, March 12, 2010, 19–20 (testimony of Katy Coba, Oregon Department of Agriculture).

BOX 4.2 SMEs Find new EU chemical regulatory framework a constraint on exports to Europe

Implemented on June 1, 2007, the Registration, Evaluation, Authorisation and Restriction of Chemical Substances (REACH) regulation is a new European Community (EC) regulation on the safe use of chemicals. Many expect that the high costs of compliance will induce some chemical SMEs to stop exporting to the EU, resulting in a market shakeout in late 2010 (the first deadline for registrations). REACH's broad coverage also affects many other sectors, including textiles and manufacturers and consumers of automotive and airplane parts (e.g., General Motors has to ensure that the thousands of parts it imports into the EU from SMEs and others in its global supply chain meet REACH requirements). Of 65,600 companies already registered as of early 2010, 85 percent are SMEs.

U.S. companies need to register the chemical substances they export to the EU and are required to have EU representation to do so. For example, although polymers themselves are exempt from registration, a U.S. chemical company marketing a polymer in the EU with 10 inputs has to register each of the inputs, even if those substances are already registered by another U.S. company. Registration dates run through 2018 and vary by tonnage and toxicity levels. Products sourced in the EU are exempted.

The costs associated with registration vary greatly depending on variables such as tonnage shipped, the amount of data needed, the number of companies that may group together for a product, and the number of products each company must register. One source estimates that it can cost \$1 million to get a product onto market one time. Another source estimates that, for some companies, a high-end estimate over a few years could be as much as \$5 million per product (an amount that can be divided among companies participating as a group). Also, given the requirements of the registration procedure, companies have expressed concern about the potential disclosure of confidential business information.

SMEs are addressing REACH requirements in a variety of ways. Some have established a presence in the EU so that they can comply with the representation requirements; others are hiring the required EU representative(s). Some are forming consortia to register products, and some are working with a few large companies that have offered to register products for their SME customers, although such offers by large companies are reportedly the exception rather than the norm.

Sources: Industry representatives, telephone interviews with USITC staff on November 19, 2009, and February 26 and March 23, 2010; e-mail to USITC staff, February 18, 2010; and interviews with USITC staff, January–March 2010; World Trade Organization, Technical Barriers to Trade (TBT) Committee, November 5–6, 2008; Johnson, written testimony to the USITC, January 28, 2010; Beattie, Implementation of REACH, 2007; USITC, written testimony (DeLisi, V.M. Fanwood Chemical), March 25, 2010.

state requests for additional product information.⁶⁹ A number of chemical companies also cited exchange rate shifts as barriers and increasing competition from China and India.⁷⁰

Labeling is also of significant concern to many chemical and nanotechnology companies. Labeling is already complicated, given the multiple and sometimes divergent labeling requirements in different countries, and the difficulties may be exacerbated by the EU's implementation of the United Nation's mandated Globally Harmonized System of Classification and Labelling of Chemicals (GHS), which would require additional labeling changes on many U.S. products.⁷¹ Moreover, in a joint effort with the

⁶⁹ REACH-like programs are reportedly being implemented in other countries, including China, Turkey, and Vietnam. There is concern that the Chinese program could effectively limit Chinese imports of chemicals. Sources also state that, given their often limited representation overseas, U.S. SMEs can offer less input in development of new regulatory systems than large firms can. Industry representatives, e-mails to USITC staff, November 18, 2009, and February 8, 2010; Winston & Strawn LLP, "China to Introduce REACH," March 2010.

⁷⁰ Industry representatives, interviews with USITC staff, January–March 2010; DeLisi, written submission to the USITC, January 15, 2010; Johnson, written testimony to the USITC, January 28, 2010.

⁷¹ Industry representatives, interviews with USITC staff, January–March 2010; UN Economic Commission for Europe, "Globally Harmonized System," April 7, 2010. One source states that the United States' slower implementation of GHS has resulted in higher freight rates for U.S. SMEs. Industry representative, e-mail to USITC staff, April 7, 2010.

International Standards Organization under the terms of the Vienna Agreement, the EU is in the process of considering a standard that would require labeling for nanomaterials and products that contain nanomaterials. The EU's newly implemented cosmetics law, as well as draft revisions to its novel foods regulation,⁷² is said to already contain such requirements.⁷³

Industry representatives said that changes in labeling are costly and can cause companies to drop product lines rather than meet multiple and sometimes divergent labeling requirements in different countries. Also, they expressed the concern that the projected labeling of nanomaterials and products containing nanomaterials might not only change customers' perceptions of new products, potentially restricting markets for many of them, but could also sweep up chemicals and food ingredients that have been marketed for years but happen to be nanomaterials (e.g., TiO₂, used in pigments, sunscreens, and food coloring).⁷⁴ This can have a disproportionate impact on SMEs, according to these representatives, since they don't have personnel or funds to follow and implement changes in labeling requirements.⁷⁵

Additional export constraints cited by several chemical and nanotechnology SMEs were the costs and overhead associated with complying with EU member country requests for additional documentation and EU directives addressing various chemicals. France, for example, recently asked U.S. nanotechnology companies to provide carbon footprint safety sheets for their products. Compliance with this request is said to be problematic, however, in that only one U.S. firm reportedly compiles such information at this time, and some of the necessary data are not available. Compliance with EU directives can also be costly: industry representatives noted that significant overhead may be incurred if SMEs are to meet assorted administrative requirements, even apart from the requirements of REACH. One example cited was the registration requirement for industrial preservatives under the biocidal products directive (BPD), imposing data costs alone of as much as \$2.5 million per product. Moreover, as with chemicals overall, the products' formulations and uses dictate whether they are addressed under the BPD or REACH, potentially leading to increased demands on SMEs' already limited resources. Sources cite a "huge shrinkage" in the marketplace of available preservatives and formulations (as well as other chemicals) and their suppliers, because of the registration processes related to REACH and the directives.⁷⁶

⁷² The EC states that the revisions to the novel foods regulation are intended to increase the availability of new and innovative foods in the EU, protect consumers, and maintain food safety. Novel food is generally defined as "food that has not been used for human consumption to a significant degree within the Community before 15 May 1997." "Proposal for a Regulation of the European Parliament and of the Council on Novel Foods and Amending Regulation (EC) no. XXX/XXXX [common procedure]" [*sic*], [SEC(2008) 12] [SEC(2008) 13], COM(2007) 872 final, 2008/0002 (COD), Brussels, January 14, 2008, 16, http://ec.europa.eu/food/food/biotechnology/novelfood/COM872_novel_food_proposal_en.pdf; "Proposal for a Regulation on Novel Foods," n.d., http://ec.europa.eu/food/food/biotechnology/novelfood/initiatives_en.htm.

⁷³ EC, "Outcome of the International Workshop," July 8–9, 2010; Falkner et al., October 2009. Sources state that the cosmetics regulation has been implemented despite the lack of a standard international definition of nanomaterials, particularly those used in cosmetics. Some have also asked whether labeling systems violate WTO or TBT rules. A 2003 WTO case, for example, addressed EU labeling of products containing genetically modified organisms; in 2006, the WTO reportedly determined that the labeling rules breached international trade rules.

⁷⁴ Industry representatives, interviews with USITC staff in Boston, MA, March 1–3, 2010.

⁷⁵ *Ibid.*

⁷⁶ Industry representatives, telephone interviews with USITC staff, February 2, and March 23, 2010.

SME Strategies for Exporting

Companies have tried various strategies to overcome the barriers mentioned above.⁷⁷ In many cases, they have formed consortia to share costs and risks related to regulatory programs and transportation, as well as to try to maximize their market presence and optimize transportation logistics. For example, companies have mentioned the creation of a consortium to work with EPA on developing nanotechnology definitions and regulations. Chemical SMEs reported grouping together to register products for REACH and individual EU directives, as well as to ship full containers of product overseas that are then distributed to individual customers upon arrival. Some chemical SMEs have partnered with larger companies to address regulatory issues such as REACH. SMEs also report establishing facilities overseas or developing an international presence by working with agents/distributors, particularly to comply with the EU representation required by REACH, to stay current with regulations, and to seek out new customers. Additionally, many SMEs have had positive comments regarding the export assistance provided by the U.S. Departments of Commerce in various states and by local U.S. Export Assistance Centers, part of the U.S. Commercial Service (USCS).

Textiles and Apparel Industry

Industry Background

Textile and apparel firms transform a basic fiber into a product, such as yarn or fabric, which is further manufactured into items such as apparel, sheets, towels, and textile bags for individual or industrial consumption.⁷⁸ According to census data, in 2007 SMEs accounted for 88 percent of domestic textile enterprises and 92 percent of domestic apparel enterprises. It appears that larger firms are responsible for the majority of the exporting done by the industry. During that year, domestic SMEs accounted for 37 percent of textile exports and 56 percent of apparel exports by value.

Domestic Barriers to Exporting

Reportedly, the most significant additional costs for exporting textile and apparel SMEs are associated with prospecting for foreign customers, understanding customs and foreign regulations, and receiving payment from foreign customers.⁷⁹ In the United States, many textile and apparel SMEs rely on a single or relatively few domestic customers.⁸⁰ Consequently, many textile and apparel SMEs do not have a domestic sales force or marketing strategy that can act as a foundation for building international sales. Several textile and apparel SMEs report that they do not have the resources or experience to navigate foreign customs and regulations, and they are unaware of government programs aimed at assisting them.⁸¹

⁷⁷ Industry representatives, interviews with USITC staff, January–March 2010; telephone interviews with USITC staff on February 26 and March 23, 2010; e-mails to USITC staff, February 18 and 26, 2010; Johnson, written testimony to the USITC, January 28, 2010; DeLisi 2010.

⁷⁸ Census, 2002 Economic Census Industry Series Reports: Textiles (accessed March 23, 2010).

⁷⁹ Industry officials, telephone interviews by USITC staff, February 17, 19, 23, and 26, 2010.

⁸⁰ It is not uncommon for one of these customers to be the U.S. government, which is required, under some programs, to purchase domestic textile and apparel goods when available.

⁸¹ Industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

Many U.S. textile and apparel SMEs also contend that their products are often at a competitive disadvantage internationally because foreign governments subsidize textile and apparel exports through low-cost loans, marketing support, free trade missions, tax incentives, and currency manipulation. According to industry sources, U.S. export assistance programs such as the USCS Gold Key Program may open doors to SMEs,⁸² but they pale in comparison to the full-scale government support offered to exporters from other countries.⁸³

Domestic SMEs also report that they are often unfamiliar with letters of credit, account receivable insurance, or ways of providing discounts or financing to international customers, or find it too costly and time-consuming to make use of these tools.⁸⁴ Several textile and apparel firms that were interviewed report that payment terms of foreign customers have increased significantly since the onset of the global financial crisis: whereas payments from international customers were typically received in 30–60 days pre-crisis, they now average 90–100 days. As a result, exporting textile and apparel SMEs report higher accounts receivable, higher interest rates on bank loans, and a greater reluctance on the part of banks to offer financing.⁸⁵

Foreign Barriers to Exporting

Reportedly, many textile and apparel SMEs do not export due to complexities and added costs of conducting business outside the United States.⁸⁶ In addition to language and cultural differences that may exist, SMEs note that important business partnering arrangements can be difficult to establish and maintain in local markets. For example, several SMEs said that it can be difficult to find international freight, warehousing, and distribution partners in foreign countries.⁸⁷ According to one industry source, concern over Foreign Corrupt Practices Act (FCPA)⁸⁸ compliance and consequences can further raise a U.S. firm's costs and increase its risk in selecting important local business partners and arrangements.⁸⁹

Industry sources also say that companies that control rights associated with specific brands may restrict distribution of that brand in foreign markets to companies that have entered into licensing and/or brand registration agreements. According to these sources, these agreements are sometimes exclusive in nature, thereby restricting others from entering certain markets.

⁸² Additional details regarding the USCS Gold Key program are available at www.trade.gov.

⁸³ Industry sources also note that most SMEs are not aware of these programs.

⁸⁴ Kay, written testimony to USITC, February 19, 2010; and, Industry officials, telephone interviews by USITC staff, February 23 and 26, 2010.

⁸⁵ Industry officials, telephone interviews by USITC staff, February 17 and 23, 2010.

⁸⁶ According to industry sources, while individual barriers may seem minor, collectively barriers can add significant costs and delays, especially to low-margin goods or to fashion goods where “speed to market” is essential. Kay, written testimony to USITC, February 19, 2010; and, Industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

⁸⁷ Textile and apparel firms exporting large, bulky commodity shipments must often develop new freight delivery mechanisms in foreign markets or risk shipping costs exceeding low product margins. Mainstream shipping firms are reportedly typically too expensive for such shipments, given the low margins. Industry official, telephone interview by USITC staff, February 23, 2010. Also, according to one industry source, a recent shortage of international transport shipping containers increases the costs and difficulties of exporting. Industry official, interview by USITC staff, Boston, MA, March 2, 2010.

⁸⁸ According to the U.S. Department of Justice, the FCPA prohibits corrupt payments to foreign officials for the purpose of obtaining or keeping business. Additional information is available from the U.S. Department of Justice at <http://www.justice.gov/criminal/fraud/fcpa/docs/lay-persons-guide.pdf>.

⁸⁹ Industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

Additionally, according to one SME, the significant added labor, software changes, product modifications, and negotiating steps are associated with converting between the measuring system adopted by the U.S. textile and apparel industries and the metric system used by many foreign customers. These additional tasks may reduce U.S. firms' ability or willingness to export.⁹⁰

Several domestic SMEs stated that they must comply with U.S. regulations that are often more costly to implement than those applied to their counterparts abroad.⁹¹ Furthermore, SMEs note that it is not uncommon for local business regulations related to the environment, taxes, healthcare, and labor to vary by country. According to several U.S. textile and apparel SMEs, U.S. firms exporting to multiple countries often incur the costs of complying with regulations in each country, which, consequently, may make them less competitive than local suppliers abroad that need to comply only with local regulations.

SMEs also note that documents required to export vary by country, and many countries lack the "transparency and predictability" needed to determine which documents are required. According to several textile SMEs that were interviewed, customs clearance in many Central American and Latin American countries can add significant delays and costs due to "excessive and ever changing paperwork requirements," and "fees required by low-level bureaucrats."⁹²

Textile and apparel SMEs also report that export rebates in foreign markets harm U.S. SMEs' ability to export. According to industry sources, such rebates are typically provided to firms that use domestic inputs. Additionally, SMEs note that value-added taxes (VAT) or goods and services taxes (GST) increase the cost of U.S. exports compared to local competitors in each market.⁹³

A number of textile and apparel SMEs also reported that they can incur significant costs and delays as a result of foreign licensing, standards-setting, and labeling requirements. According to several SMEs, U.S. firms that export high-tech textiles or medical textiles can spend significant time and resources researching and then demonstrating that exported goods either are not subject to, or are in compliance with, in-country requirements.⁹⁴ According to one SME, textile companies that export yarn or fabrics that contain chemicals or dyes (typically to EU countries) might need to provide additional in-country testing or documentation to certify the safety of the product or the product's inputs.⁹⁵ Moreover, labeling requirements for such products can vary greatly.⁹⁶

The degree of international enforcement of intellectual property rights (IPR) also reportedly affects U.S. exports of textiles and apparel. Some U.S. manufacturers of high-

⁹⁰ Kay, written testimony to USITC, February 19, 2010; industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

⁹¹ Kay, written testimony to USITC, February 19, 2010; industry official, telephone interview by USITC staff, February 23, 2010.

⁹² Kay, written testimony to USITC, February 19, 2010; industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

⁹³ Bieri, written testimony to the USITC, January 29, 2010; industry official, interview by USITC staff, Boston, MA, March 2, 2010.

⁹⁴ Bieri, written testimony to the USITC, January 29, 2010; industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

⁹⁵ According to one industry source, in the EU, restricted substances lists and REACH have varying requirements for products with chemical inputs. Research and compliance with these restrictions can add significantly to exporters' costs. Industry official, telephone interview by USITC staff, February 19, 2010.

⁹⁶ Industry officials, interviews and telephone interviews by Commission staff, February 17 and 23 and March 2, 2010.

tech yarns and fabrics, and apparel firms with branded products, are concerned about counterfeiting in foreign countries. SMEs in these sectors typically do not have the resources needed to prevent and seek enforcement of IPR violations.⁹⁷

Several SMEs also note that high tariffs increase the cost of U.S. exported goods. One firm stated that high tariffs effectively preclude certain U.S. yarn manufacturers from exporting to Brazil.⁹⁸ According to the Hosiery Association, U.S. SMEs are further harmed because many of these countries have preferential bilateral or multilateral textile trade agreements with other countries.⁹⁹

SME Strategies for Exporting

U.S. textile and apparel SMEs have several industry-specific export strategies. Some textile and apparel SMEs report that they enter foreign markets as a means to sell surplus inventory. Others export inputs to countries where low-cost labor and free trade agreements allow the final good to be processed or assembled abroad, then shipped back to the United States, where it is ultimately sold to the consumer. According to industry sources, U.S. textile and apparel firms are most competitive when they are highly automated and either address niche markets or can compete on the basis of quality.¹⁰⁰ Textile industry sources reported that Internet sales do not typically attract new customers. Firms characterize their customers as “wanting to see and feel” samples and products. For some textile SMEs that do seek out new customers internationally, trade shows and trade fairs are reportedly “invaluable,” as they can offer face-to-face sales to a potentially large group of interested customers. Textile and apparel SMEs that export also reportedly use contacts made through associations, trade groups, formal and informal partnering, and government programs. According to industry sources, the success of each arrangement varies by firm.¹⁰¹ One domestic textile exporter reported that it enters one foreign market at a time, given that rules and business procedures typically vary by country. Another textile firm interviewed reports that the cost of entering Central American and Latin American markets is less than entering European markets.¹⁰²

According to several textile SMEs interviewed, in some cases marketing directly to retailers domestically and internationally has spurred demand for their goods as inputs for finished apparel items. However, according to several industry sources, retailers of all sizes are increasingly sourcing directly from manufacturers in Asia that offer full supply chain solutions (typically this includes all stages, from yarn to full garment manufacturing, with the exception of design). According to industry sources, this precludes using many domestic SME textile suppliers that do not have the size or the established domestic relationships and partnering arrangements to offer complete sourcing or solutions.¹⁰³

⁹⁷ Industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

⁹⁸ Bieri, written testimony to the USITC, January 29, 2010; industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

⁹⁹ Kay, written testimony to USITC, February 19, 2010.

¹⁰⁰ Kay, written testimony to USITC, February 19, 2010; industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

¹⁰¹ Industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

¹⁰² According to several industry representatives, trade shows, travel expenses, advertising, and shipping are all typically less expensive in Central and South America than in many EU countries, thereby making it easier for SMEs with limited resources to enter these markets. Industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

¹⁰³ Industry officials, interviews and telephone interviews by USITC staff, January 27–March 2, 2010.

Medical Devices

Industry Background

Medical devices are used by healthcare professionals to help diagnose, treat, and prevent various diseases and injuries.¹⁰⁴ In the United States, SMEs represent 80 percent of the nearly 12,000 establishments in the medical device industry.¹⁰⁵ Therefore, the success of this industry is heavily reliant on the contributions of SMEs to innovate and develop new products.

The extent to which U.S. SMEs in the medical device industry export depends on the demand for the types of products that these firms specialize in manufacturing. For instance, less than 10 percent of in vitro diagnostic (IVD) firms¹⁰⁶ export, largely due to privacy concerns, as foreign patients are often reluctant to submit samples that will be evaluated in U.S. laboratories.¹⁰⁷ By contrast, more than 40 percent of SMEs that develop products in high demand, such as cardiovascular or orthopedic devices, export.¹⁰⁸

Domestic Barriers to Exporting

U.S. SMEs seeking to export medical devices must first gain clearance from the U.S. Food and Drug Administration (FDA),¹⁰⁹ a process which can be lengthy and costly for most Class 3 medical devices (the most highly regulated category).¹¹⁰ Further, because of the short product life cycles associated with most advanced medical devices, approved

¹⁰⁴ Relevant NAICS codes for these devices include 325413, in vitro diagnostic substances and devices; 334510 and 334517, electromedical equipment; 339112, surgical and medical instruments; 339113, orthopedic devices and hospital supplies; and 339114, dental equipment.

¹⁰⁵ USITC, hearing transcript, March 12, 2010, 145 (testimony of Grant Ramaley, Aseptico, Inc.); Emergo Group, “2010 Medical Device Survey,” November 2010; IbisWorld, “Medical Instrument Manufacturing in the U.S.,” March 3, 2010.

¹⁰⁶ In vitro diagnostic (IVD) medical devices refers to devices used to collect various samples of body fluids—such as blood, urine, and tissue—for the purposes of detecting diseases and diagnosing health problems. S&P, “Healthcare: Products and Supplies,” February 4, 2010, 26; industry representatives, e-mail correspondences with USITC staff, San José, CA, March 2, 2010.

¹⁰⁷ Industry representative, e-mail correspondence with USITC staff, San José, CA, March 2, 2010.

Another explanation is aging populations across Europe and Asia are driving demand for more cardiovascular and orthopedic devices, providing more export opportunities for U.S. SMEs that manufacture these products. S&P, “Healthcare: Products and Supplies,” February 4, 2010.

¹⁰⁸ Industry representatives offer a very broad range of estimates, from less than 10 percent to as high as 80 percent. These responses seemed to fluctuate based on the device. The statistic cited is a relatively conservative estimate based on responses from these representatives. Industry representatives, e-mail correspondences and telephone interviews with USITC staff, February 26–March 23, 2010.

¹⁰⁹ “The FDA does not regulate devices that are both made and sold abroad by U.S. companies.” S&P, “Healthcare: Products & Supplies,” February 4, 2010.

¹¹⁰ Due to the diversity of ailments, medical devices range in complexity and are most commonly categorized into three classes based on the relative risk of the device. Class 3 devices are the most advanced medical products, pose the greatest potential risk to patients, and must commonly undergo clinical trials in order to be approved for sale in most countries. Examples include cardiac pacemakers, heart valves, and implantable orthopedic devices. Class 2 devices resembling products that are already on the market are required to submit a premarket notification, otherwise known as a 510 (k), which confirms whether or not the device under consideration is sufficiently similar to one that has already been approved for sale; 99 percent of devices required to submit a 510 (k) approval are class two devices. Most Class 1 devices are exempted from this process, given the extremely low risk of these products. Industry representative, telephone interview by USITC staff, February 23, 2010; S&P, “Healthcare: Products and Supplies,” February 4, 2010.

devices may only enjoy success on the market for one year before being rendered obsolete.¹¹¹

The difficulty of accessing capital is reportedly a critical challenge for SMEs in the medical device industry seeking to export. Significant financial costs—it can cost up to \$200 million to commercialize a Class 3 device—coupled with a lengthy product development cycle of up to two years for advanced medical devices can deter investors seeking a more immediate return on their investment; the estimated return on investment for investments in the industry is only 15–20 percent over 3–7 years.¹¹²

Foreign Barriers to Exporting

According to several SMEs in the industry, complex regulatory procedures abroad can be a significant barrier to trade for SMEs in the medical device industry. During the approval process, nearly every country requires device manufacturers to implement a quality management system, verifying that the device fulfills stipulated requirements for the design and manufacture of medical devices. However, quality management systems are not standardized across all markets, often requiring SMEs to undergo redundant approval processes across countries.¹¹³ For instance, although most countries, including Australia, Canada, China, members of the EU, Japan, and the United States, accept a quality management system called ISO 13485, others, including Brazil, Russia, and South Korea, do not. Hence, an SME seeking to export into the latter markets must follow local regulatory procedures—which often entails arranging a third party to coordinate, submit, and translate required documentation into the local language—regardless of whether or not the device has been approved in other markets.¹¹⁴

Problems arise even between countries that accept similar quality management systems. For instance, Canada requires quality management systems that have already been audited under the ISO 13485 standard to be assessed by Canadian-accredited inspectors, even if that system has been audited by another country with a similar approval process, such as the EU.¹¹⁵ Similarly, in Japan, foreign medical devices are required to undergo significant clinical trials even after the device has undergone similar tests abroad; the approval process can last up to three years in Japan.¹¹⁶ These additional steps delay the opportunity for U.S. SMEs to generate revenue from their products.

Inadequate foreign reimbursement for commercialized medical devices may also be a significant barrier to exporting U.S. medical device SMEs. Although the typical end users for medical devices are hospitals and physicians' offices, reimbursement decisions are commonly determined by third-party insurers, government agencies, and local distributors, who may have conflicting perceptions of a particular device's value.¹¹⁷ As a

¹¹¹ USITC, "Medical Devices," March 2007, 2-2.

¹¹² Industry representative, interview by USITC staff, Boston, MA, March 2, 2010.

¹¹³ USITC, hearing transcript, March 12, 2010, 119 (testimony of Phil Agress, AdvaMed); Emergo Group, "Country Regulatory Practices," 2010.

¹¹⁴ U.S. firms seeking to export medical devices to Brazil are required to have all documentation translated into Portuguese by the FDA; companies are fined for improperly filing the required paperwork. Industry representative, interviews by USITC staff, Boston, MA, March 3, 2010. A similar process occurs in South Korea, where U.S. firms are required to work alongside local third-party affiliates to submit documentation, which must be translated into Korean. Emergo Group, "Country Regulatory Practices," 2010.

¹¹⁵ USITC, hearing transcript, March 12, 2010, 145 (testimony of Grant Ramaley, Aseptico, Inc).

¹¹⁶ USITC, "Medical Device Equipment," March 2007, 6–18.

¹¹⁷ S&P, "Healthcare: Products & Supplies," February 4, 2010; USITC, "Medical Device Equipment," March 2007; industry representatives, interviews by USITC staff, various locations, January–March, 2010.

result, U.S. medical device manufacturers may not receive a high enough price to cover the cost of developing, commercializing, and marketing their device, often receiving between one-half and one-third less revenue on devices sold abroad than domestically.¹¹⁸

SME Strategies for Exporting

U.S. medical device SMEs with little exporting experience commonly export into the EU first before selling to markets with more stringent regulations.¹¹⁹ The primary distinction between gaining approvals in the EU versus more difficult markets is the length and administration of clinical trials. Whereas Japan and the United States, for instance, require extensive clinical data, the EU simply requires “clinical evidence” to approve a device. Thus, a device that has already been placed in another market and has yielded demonstrable benefits does not need further clinical trials in order to be sold in the EU.¹²⁰ Depending on the type of medical device and prior demonstration of “clinical evidence,” a medical device can be approved for sale in the EU within 3 months, compared to 10 months for the United States and up to 2 years for Japan.¹²¹

U.S. medical device SMEs commonly consult with U.S. Export Assistance Centers, which are associated with the USCS, and hire medical and IVD device consultants to create opportunities in foreign markets. Specifically, the USCS provides SMEs with market research and can serve as a liaison with relevant foreign entities.¹²² Consulting firms assist many SMEs in implementing quality management systems; conducting internal audits to ensure that firms are compliant with local market regulations; and preparing the necessary documentation to facilitate device approval abroad.¹²³

Computer Services

Industry Background

Computer services include computer systems design, development, integration, and maintenance, as well as data processing, hardware installation, technical support, and various computer-related project management and consulting services. Some firms supply a single service such as software development, but many firms provide an array of complementary services.¹²⁴ Many computer services firms have standardized platforms that are customized for specific types of customers. Broadly, the computer services market is dynamic, volatile, and growing rapidly due to increasing demand for information technology.¹²⁵

One consequence of the international adoption of information technology is that valuable computer services are demanded globally. The short lifespan of software creates pressure

¹¹⁸ Industry representative, interview by USITC staff, Boston, MA, March 3, 2010.

¹¹⁹ Industry representatives, interviews by USITC staff, various locations, January–March, 2010.

¹²⁰ Industry representative, telephone interview by USITC staff, February 23, 2010.

¹²¹ Ibid.

¹²² Industry official, interview by USITC Staff, Newport Beach, CA, March 3, 2010.

¹²³ Emergo Group Web site, <http://www.emergogroup.com> (accessed March 25, 2010); industry representative, telephone interview by USITC staff, March 9, 2010.

¹²⁴ Industry official, interview by USITC staff, Washington, DC, February 24, 2010. For example, firms may sell a package of hardware installation, customized software development for that hardware arrangement, and post-installation consulting services.

¹²⁵ Moen et al., “Internationalization of Small Computer Software Firms: Entry Forms and Market Selection,” 2004.

to commercialize rapidly in all markets, so the incentives are for computer services firms to get involved in foreign markets simultaneously instead of sequentially.¹²⁶

Computer services SMEs are responsible for much of the innovation in the industry. Computer services SMEs face low barriers to entry, and their segment of the market is characterized by high failure rates and short product life cycles. Many SMEs are quickly acquired by larger computer services firms once they develop a valuable product or service and, in some cases, being acquired is the explicit exit strategy of start-up firms. Computer services SMEs often supply a niche market—for example, providing software applications to the financial, logistics, or tourism sectors.¹²⁷ Computer services firms are able to achieve large revenues with a small number of employees; famously, Craigslist's 30 employees generated revenue estimated at \$100 million in 2008.¹²⁸

Computer services SMEs become involved in foreign markets using a variety of mechanisms, including distributors or agents, licensing, indirect exports, and joint ventures. There are not always clear distinctions between these categories.¹²⁹ Often the choice of engagement depends on the degree of face-to-face interaction necessary for a given service; customized services require more interactions and therefore a higher level of exporting-firm control, whereas standardized services can more easily be sold through intermediaries.¹³⁰ One study found that software SMEs that sell through distributors are larger than firms that export directly; firms that already use distributors for domestic sales are more likely to sell through intermediaries abroad; and newer, more innovative technology increases the likelihood of alliances with distributors, as the reputation of the product or service and the relationships with clients have not yet been established.¹³¹

Growth in Internet use has benefited SME computer services exports by facilitating connections between buyers and sellers in different countries. The Internet has lowered the costs of entering foreign markets by simplifying export documentation, permitting electronic payments, providing market research, and quickly conveying client feedback. It has also increased international awareness, augmented the impression of a virtual local office in foreign countries, and reduced the “psychic distance” between countries.¹³² Most computer services SMEs are comfortable with online social networks and international communications technology.

Domestic Barriers to Exporting

Domestic barriers faced by computer services SMEs that export include export controls on strategically important services such as encryption software. Export and re-export controls on commercial encryption products cover both software and hardware that incorporates encryption technology. Despite the publication of new rules in 2008

¹²⁶ Bell, “A Comparative Study of the Export Problems of Small Computer Software Exporters in Finland, Ireland, and Norway,” 1997, 597.

¹²⁷ Bell, “A Comparative Study of the Export Problems of Small Computer Software Exporters in Finland, Ireland, and Norway,” 1997.

¹²⁸ Wolf, “Why Craigslist Is Such a Mess,” August 24, 2009.

¹²⁹ Moen et al., “Internationalization of Small Computer Software Firms: Entry Forms and Market Selection,” 2004.

¹³⁰ Burgel and Murray, “The International Market Entry Choices of Start-Up Companies in High-Technology Industries,” 2000.

¹³¹ Burgel and Murray, “The International Market Entry Choices of Start-Up Companies in High-Technology Industries,” 2000, 49.

¹³² Moen et al., “Internationalization of Small Computer Software Firms: Entry Forms and Market Selection,” 2004. The Internet has also increased the probability of unsolicited international orders.

designed to limit the number of encryption products that require review, U.S. regulations remain lengthy and complex, and some computer services SMEs are concerned they may accidentally be exporting in violation of these rules.¹³³

Computer services SMEs also face constraints on access to export finance. Many banks consider computer services SMEs to be risky, due to a low asset base and the high failure rate in the industry.¹³⁴ As one industry official noted, such firms often have long research and development periods with no sales, which looks risky on financial statements, and banks are generally reluctant to finance unproven technologies.¹³⁵

Foreign Barriers to Exporting

Generally, developed countries have low tariffs on software, and developing countries encourage imports of software important to infrastructure, such as oil-related software, financial services software, and tourism-encouraging software for hotels and restaurants.¹³⁶ However, many countries (and some U.S. states, such as Massachusetts) have strong regulations pertaining to the retention, integrity, and security of data, which can apply, for example, to software that tracks consumer behavior.¹³⁷ One study found that the main foreign barriers faced by occasional software exporters include burdensome documentation and difficulties communicating with customers, while frequent exporters are more likely to express concern about payment delays and currency fluctuations.¹³⁸ The former problems gradually decrease and the latter problems gradually increase as firms increase their software exports.

There is high variance in the exportability of computer services produced by SMEs. Financial software is used by sectors that are heavily and idiosyncratically regulated by national authorities, and thus require customization; in contrast, cell phone software is fairly standardized. SMEs that develop software for specific entities like trade unions or unemployment funds must attend to foreign legal frameworks and business traditions when exporting.¹³⁹ Tradability is also determined by similarity in business needs: U.S. SMEs that develop software for the airline industry leverage the fact that English is the international language of air traffic by exporting their services to aviation firms and civil aviation authorities in other countries.¹⁴⁰

Many computer services SMEs face cultural barriers to exports. According to an industry official, the salience of cultural barriers is often higher for computer services than for manufacturing industries, due to the need to provide customer service and installation assistance; on the other hand, such barriers are lower in computer services than they are, for example, in healthcare services, as information technology (IT) workers tend to share a technology-oriented culture.¹⁴¹ After-sales customer support for computer services

¹³³ Industry official, interview by USITC staff, Irvine, CA, March 5, 2010.

¹³⁴ Bell, "A Comparative Study of the Export Problems of Small Computer Software Exporters in Finland, Ireland, and Norway," 1997.

¹³⁵ Industry official, interview by USITC staff, New York, NY, February 18, 2010.

¹³⁶ Bell, "A Comparative Study of the Export Problems of Small Computer Software Exporters in Finland, Ireland, and Norway," 1997, 597.

¹³⁷ USTR conference, "Jobs on Mainstreet, Customers around the World: A Positive Trade Agenda for U.S. Small- and Medium-Sized Enterprises," January 21, 2010.

¹³⁸ Bell, "A Comparative Study of the Export Problems of Small Computer Software Exporters in Finland, Ireland, and Norway," 1997, 599.

¹³⁹ Rajala et al., "Software Vendor's Business Model Dynamics Case: TradeSys," 2003.

¹⁴⁰ Industry official, telephone interview by USITC staff, January 27, 2010.

¹⁴¹ Industry official, telephone interview by USITC staff, March 2, 2010.

exports requires both technical and interpersonal skills, and when a firm is selling through distributors, such skills need to be either available at or transferable to the intermediaries.

U.S. computer services exporters of all sizes may benefit from a strong national brand in IT. This is partly due to U.S.-based multinational computer services firms promoting and raising the reputation of the U.S. industry. U.S. SME exporters of computer services also benefit from the international adoption of Microsoft and Apple software, and of English as the language of various operating systems.¹⁴²

SME Strategies for Exporting

Export strategies employed by computer services SMEs are often oriented around networks and relationships, with SMEs frequently entering foreign markets through specific contacts. Computer services SMEs often operate in a culture of robust interfirm cooperation due to their relationships with hardware vendors, product development firms, and marketing organizations, which provide a strong orientation towards networks.¹⁴³ SMEs that offer services complementary to IT hardware may have opportunities to enter markets via the established distribution networks of hardware manufacturers.¹⁴⁴ Computer services SMEs that use distributors benefit from existing customer networks and local relationships along with the distributors' experience, at the cost of sharing profits and training and monitoring the partner. From the distributor's standpoint, the products and services supplied by computer services firms must reach a threshold sales volume in order to be worth the partnership. Distributors who offer a portfolio of similar products may already have necessary skills, but otherwise firms may send trainers to the foreign country or bring distributor representatives to headquarters for training.¹⁴⁵

In some cases, larger partners already operating in foreign markets will propose partnerships with computer services SMEs, exchanging the large firm's distribution networks and market intelligence for the technological capabilities of the SME. One SME described its large multinational partner as a "honey pot," with potential partners "buzzing around and bumping into each other."¹⁴⁶ Computer services SMEs also can expand into foreign markets (and acquire technology) through outright purchases of other companies.¹⁴⁷

Export strategies employed by computer services SMEs also include using pricing models that mitigate the risk of not receiving payment, such as pricing their services on the basis of number of individual searches, subscription fees, or amount of connection time (for example, supplying video game services through broadband networks on time-based charges). Successful SME computer services exporters often purchase domain names in various countries, provide multiple translations of their Web site (in some cases permitting non-Roman alphabet inputs from users), and offer customer support in various

¹⁴² Bell, "A Comparative Study of the Export Problems of Small Computer Software Exporters in Finland, Ireland, and Norway," 1997, 600.

¹⁴³ Coviello and Munro, "Network Relationships and the Internationalization Process of Small Software Firms," 1997.

¹⁴⁴ Bell, "A Comparative Study of the Export Problems of Small Computer Software Exporters in Finland, Ireland, and Norway," 1997, 598.

¹⁴⁵ Industry official, telephone interview by USITC staff, January 27, 2010.

¹⁴⁶ Coviello and Munro, "Network Relationships and the Internationalization Process of Small Software Firms," 1997, pg. 376.

¹⁴⁷ Moen et al., "Internationalization of Small Computer Software Firms: Entry Forms and Market Selection," 2004.

languages.¹⁴⁸ More generally, computer services SMEs try to build flexibility into their core offerings, allowing them to reuse the largest possible percentage of their supplied services with different customers.¹⁴⁹

Professional Services

Industry Background

Professional services comprise a variety of services, including accounting, advertising, architecture, education, engineering, healthcare, law, and management consulting, among others. The commonality among these disparate sectors is that the services supplied are related to the skills and knowledge of highly trained individuals. Professional services suppliers are typically well-educated, and their professions are often licensed or otherwise regulated by governments or industry associations. Professional services firms usually provide highly customized solutions for each customer, as specificity is required in services like advice, knowledge, or project management. This requires both technical skills and interpersonal skills.¹⁵⁰ Small professional services firms can develop strong reputations in boutique areas, such as intellectual property law or management consulting for the fashion industry.¹⁵¹

Professional services are frequently exported through the movement of suppliers or customers. The latter includes providing services to foreign firms establishing domestic subsidiaries, who often seek local accounting, legal, and management consulting services. Trade in some professional services also has an increasingly important cross-border component, as architecture firms and management consultants can now provide many services electronically that would formerly have required travel.¹⁵² However, many professional services SMEs emphasize the importance of the personal contact and face-to-face interaction they have with clients, and SMEs in sectors like management consulting often have to open local offices in order to achieve the necessary proximity to clients (especially when supplying services across time zones).¹⁵³ One study of U.S. accounting SMEs found that those with greater international involvement placed higher importance on face-to-face meetings with clients than their less internationalized counterparts.¹⁵⁴

Domestic Barriers to Exporting

In some cases, professional services SMEs are constrained by the availability of personnel. Engineering SMEs in the United States note that the number of U.S. graduates in mechanical, civil, electrical, chemical, and aeronautical engineering has declined in recent years, and there is a particular shortage of internationally oriented engineers.¹⁵⁵ In one survey, U.S. accounting SMEs ranked their lack of in-house international expertise as

¹⁴⁸ Moen et al., "Internationalization of Small Computer Software Firms: Entry Forms and Market Selection," 2004.

¹⁴⁹ Industry official, telephone interview by USITC staff, January 27, 2010.

¹⁵⁰ Patterson and Cicic, "A Typology of Service Firms in International Markets: An Empirical Investigation," 1995, 62.

¹⁵¹ Industry officials, interview by USITC staff, New York, NY, February 17, 2010.

¹⁵² Industry officials, interview by USITC staff, Miami, FL, March 4, 2010.

¹⁵³ Ibid.

¹⁵⁴ Bagchi-Sen and Kuechler, "Strategic and Functional Orientation of Small and Medium Sized Enterprises in Professional Services: An Analysis of Public Accountancy," July 2000, 139.

¹⁵⁵ Industry officials, interview by USITC staff, Houston, TX, March 1, 2010.

the strongest barrier to internationalization, outranking foreign barriers.¹⁵⁶ However, this issue varies across professional services; for example, many foreign students are attracted to U.S. architecture schools and are subsequently available for employment by U.S. architecture SMEs.¹⁵⁷

While international experience tends to be relatively common among U.S. professional services SMEs, there is wide variance in the breadth of firms' international orientation. For example, architects are often influenced by styles and concepts from traditions in many countries.¹⁵⁸ However, management consultants that focus on local clients, whether in the United States or abroad, tend to gain experience in country-specific business environments. Legal services lend themselves even more to country-specific practices, as legal services SMEs are institutionally oriented towards certain types of legal entities (for example, the specific legal status of corporations, which varies from country to country).

Foreign Barriers to Exporting

Foreign barriers to entry vary significantly by sector. Barriers can be low in architectural services, as consumers of these services frequently hold international competitions which firms of any size can enter.¹⁵⁹ However, legal services SMEs may face high entry costs due to the efforts required to understand the body of legal precedents in foreign countries, a skill that is needed to provide good counsel in foreign legal environments. When legal contracts are translated into multiple languages, parties often must agree which language version will be authoritative in case of a dispute, which requires a thorough understanding of foreign legal terminology.¹⁶⁰

Even within sectors, there is variance in the exportability of professional services. One study found that U.S. accounting SMEs with greater international involvement earned a larger percentage of their revenue from auditing and management advisory services than did accounting SMEs that were not internationalized, suggesting that these services are more exportable than tax services (which require in-depth knowledge of a national tax system) or review and compilation services (which are more commoditized and therefore less lucrative).¹⁶¹ Likewise, practicing civil law in foreign jurisdictions is reportedly more difficult than practicing common law.¹⁶²

Cultural and institutional differences are major issues for many professional services exports. Advertising services, for example, must adapt to some foreign cultural contexts more than others: U.S. advertising services require less cultural translation when exported to Canada (which receives U.S. television stations) and the EU (which has been exposed

¹⁵⁶ Bagchi-Sen and Kuechler, "Strategic and Functional Orientation of Small and Medium Sized Enterprises in Professional Services: An Analysis of Public Accountancy," July 2000, 141.

¹⁵⁷ USTR conference, January 21, 2010.

¹⁵⁸ Ibid.

¹⁵⁹ For example, in 2007 the Abu Dhabi Tourism Authority and Tourism Development and Investment Company launched a design competition for the Sheikh Zayed National Museum, and U.S.-based firms Bernard Tschumi Architects and Eisenman Architects, each with under 30 employees, submitted proposals. However, the competition was won by UK-based Foster and Partners Ltd, which has over 1,000 employees. Stensgaard, "13 of the World's Top Architectural Firms in Sheikh Zayed National Museum Design Competition," June 11, 2007.

¹⁶⁰ Altay, "Difficulties Encountered in the Translation of Legal Texts: The Case of Turkey," October 2002.

¹⁶¹ Bagchi-Sen and Kuechler, "Strategic and Functional Orientation of Small and Medium Sized Enterprises in Professional Services: An Analysis of Public Accountancy," July 2000, 133.

¹⁶² Industry officials, interview by USITC staff, New York, NY, February 18, 2010. Civil law is developed through legislation, whereas common law is developed through court decisions.

to the marketing efforts of U.S. firms since World War II) than for Asia. Some legal services SMEs are reluctant to enter emerging markets where the “rule of law” is not firmly established—i.e., there is less transparency and parties tend to trade on the basis of trust and family rather than paper contracts.¹⁶³ For example, some legal services SMEs perceive that environmental laws in China and Latin America are far more often enforced against subsidiaries of foreign firms than against national companies, and these SMEs are reluctant to provide advice in an atmosphere of differential enforcement and legal ambiguity.¹⁶⁴

Foreign regulation of professional services can be complicated and difficult for U.S. services providers to understand. Professional services providers are often required to have a combination of licenses, recognized credentials, and/or citizenship or residence in their host country, and in some cases these issues can only be addressed by teaming with local partners. Many SMEs lack information or experience in visa and work permit issues.¹⁶⁵ One survey of U.S. professional services SMEs found that their top reported export challenge was burdensome and complex regulations, outranking problems with local partners and costs of doing business.¹⁶⁶

SME Strategies for Exporting

Most professional services SMEs operate on the strength of their reputation, and they often enter foreign markets through relationships and referrals. Frequently it is a relationship with a large multinational firm that provides the key: for example, management consulting and accounting SMEs often work with large domestic clients that ask them to supply services to their foreign subsidiaries or to work with domestic subsidiaries of foreign firms, which leads to work for the foreign headquarters.¹⁶⁷ Legal services SMEs may become involved internationally at the request of a client, as when someone who owns property in multiple countries seeks a law firm that can deal with property law issues across borders.¹⁶⁸

SME exporters of professional services frequently join networks of service providers. Professional services are often complementary, and networks that comprise accounting, legal, management consulting, and other service providers can facilitate both referrals and ad hoc alliances that offer complete services packages to clients. Examples of networks of professional services SMEs include Interleges (an association of independent law firms in North America, the EU, Asia, and the Middle East) and the Society for Marketing Professional Services (a U.S.-Canadian network of architecture, engineering, planning, interior design, and construction firms), among many others.¹⁶⁹

Many professional services SMEs deliver value to clients by having an international outlook and being comfortable with other cultures. They therefore try to hire employees from varied backgrounds, including employees who formerly worked for large multinational firms or in the military.¹⁷⁰ Some SMEs send their employees to training

¹⁶³ Industry officials, interview by USITC staff, New York, NY, February 18, 2010.

¹⁶⁴ Ibid.

¹⁶⁵ Ibid.

¹⁶⁶ CompTIA, “Small and Medium-Sized Business Export Insights and Opportunities,” January 2010.

¹⁶⁷ Industry officials, interview by USITC staff, New York, NY, February 17, 2010.

¹⁶⁸ Industry officials, interview by USITC staff, New York, NY, February 18, 2010.

¹⁶⁹ Industry officials, interview by USITC staff, New York, NY, February 18, 2010; Society for Marketing Professional Services, March 24, 2010. <http://www.smps.org//AM/Template.cfm?Section=Home>

¹⁷⁰ Industry officials, interview by USITC staff, New York, NY, February 18, 2010.

events, conferences, and professional development seminars in foreign countries to improve their international expertise. In addition, new firms are often launched to take advantage of their founders' international skills. Individuals born abroad who have come to study in the United States may start U.S. SMEs that export professional services to their country of origin, drawing upon familial and social networks. Professionals working for large international law or advertising firms will often leave to start new services SMEs, taking their international contacts with them.¹⁷¹

U.S. professional services SMEs benefit from the promotion of U.S. codes and standards. Eighty-five countries require that their listed companies use International Financial Reporting Standards, which share the same principles and conceptual frameworks as the U.S. Generally Accepted Accounting Principles (GAAP), and this reduces the adaptation costs of U.S. accounting SMEs that enter foreign markets. Even when standards are not harmonized, SMEs benefit when U.S. standards are known to be effective. For example, engineering standards for buildings, airports, fueling facilities, and other infrastructure in the United States are stringent, so engineering SMEs that meet these standards reportedly earn a presumption in foreign markets that their designs are of high quality.¹⁷² However, achieving legal harmonization between countries is more difficult; some U.S. state bar associations have developed proposals for cross-jurisdictional relationships whereby domestic and foreign jurisdictions would accept each other's practicing lawyers, but such proposals are controversial.¹⁷³

More generally, the perception that the United States has a strong business culture improves the exportability of management consulting services. This is especially true in emerging markets that aspire to develop a U.S.-like business culture. For example, the fact that U.S. architects are known for innovation and sustainability increases demand for them to work on new approaches, such as self-powering building designs, in places like China and India.¹⁷⁴

¹⁷¹ USITC, hearing transcript, March 10, 2010, 33 (testimony of Dr. Solomon Akinduro, AFRAM Corporation).

¹⁷² Industry officials, interview by USITC staff, Houston, TX, March 1, 2010.

¹⁷³ Industry officials, interview by USITC staff, New York, NY, February 18, 2010.

¹⁷⁴ USTR-Sponsored Conference. "Jobs on Main Street, Customers Around the World," January 21, 2010

CHAPTER 5

BENEFITS TO U.S. SMEs FROM INCREASED EXPORT OPPORTUNITIES

Introduction

This chapter identifies the benefits to U.S. SMEs from the improved export opportunities provided by free trade agreements (FTAs) and other trading arrangements in which the United States participates. It begins with a brief discussion of information sources, followed by an overview summarizing U.S. participation in FTAs and selected other trading arrangements. Next, the benefits to U.S. SMEs of the increased export opportunities created by FTAs and other trading arrangements are described with respect to:

- **Market access:** Under FTAs and other trading arrangements, governments can increase or improve market access by reducing duties and nontariff measures (NTMs) or through other rules that improve market access. Examples provided by U.S. SMEs include the benefits of duty reductions on: remanufactured goods under U.S. bilateral FTAs; on valves under the North American Free Trade Agreement (NAFTA); and on pharmaceutical products under the WTO Pharmaceutical Agreement, as well as benefits to the textile and apparel industry of the rules of origin adopted under the U.S.-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA).
- **Trade facilitation:**¹ Under FTAs and other trading arrangements, governments can facilitate exports by improving customs procedures, harmonizing standards, providing for the mutual recognition of certification, and undertaking measures to facilitate the movement of workers. Examples provided by U.S. SMEs include the benefits for the telecommunications industry from mutual recognition agreements (MRAs); the benefits for the medical devices industry from a U.S.-Japan bilateral agreement; the benefit for the wine industry from mutual acceptance agreements (MAAs); and the benefits for producers of organic products from a U.S.-Canada bilateral agreement.
- **Regulatory environment:** FTAs and other trading arrangements can result in a more favorable regulatory environment as signatories work to improve, harmonize, and make the regulatory environment more predictable. Examples provided by U.S. SMEs include the benefits to the wood pallet and container industry of U.S. participation in international phytosanitary agreements, and the benefits to the biotechnology industry of agreements that support the protection and enforcement of intellectual property rights (IPR).

The information used in this chapter came from a number of different sources. These include public testimony from the three public hearings by the Commission for this investigation; written submissions received in conjunction with the hearings;

¹ Trade facilitation refers to a broad range of measures to streamline and simplify international trade procedures to allow for an easier flow of goods and services across borders.

Commission staff interviews of public and private sector individuals throughout the United States; published information from private sector organizations such as the U.S. Chamber of Commerce and international organizations such as the OECD; and published economic literature.²

As stated elsewhere in this report, the information presented on the views of U.S. SMEs reflects the views of those particular SME representatives, and not the views of the Commission. Corroborating the views of the SME representatives was beyond the scope of this report.

U.S. Participation in Free Trade Agreements and Selected Other Trading Agreements

The U.S. government has sought to improve the international trading environment for U.S. firms through membership in the World Trade Organization (WTO) and participation in other multilateral, plurilateral, and bilateral trading arrangements, including mutual recognition agreements (MRAs), bilateral investment treaties (BITs), and trade and investment framework agreements (TIFAs). In addition, the United States has entered into 11 FTAs with 17 countries. Appendix D provides additional information on U.S. FTAs and on U.S. participation in other trading arrangements. U.S. FTAs are shown in table D.1.

Benefits to SMEs of Increased Export Opportunities

FTAs and other trading arrangements potentially create increased export opportunities for all U.S. firms. Those opportunities occur through increased or improved market access, better trade facilitation, and a more favorable regulatory environment. Figure 5.1 shows that the benefits to U.S. exporters may include:

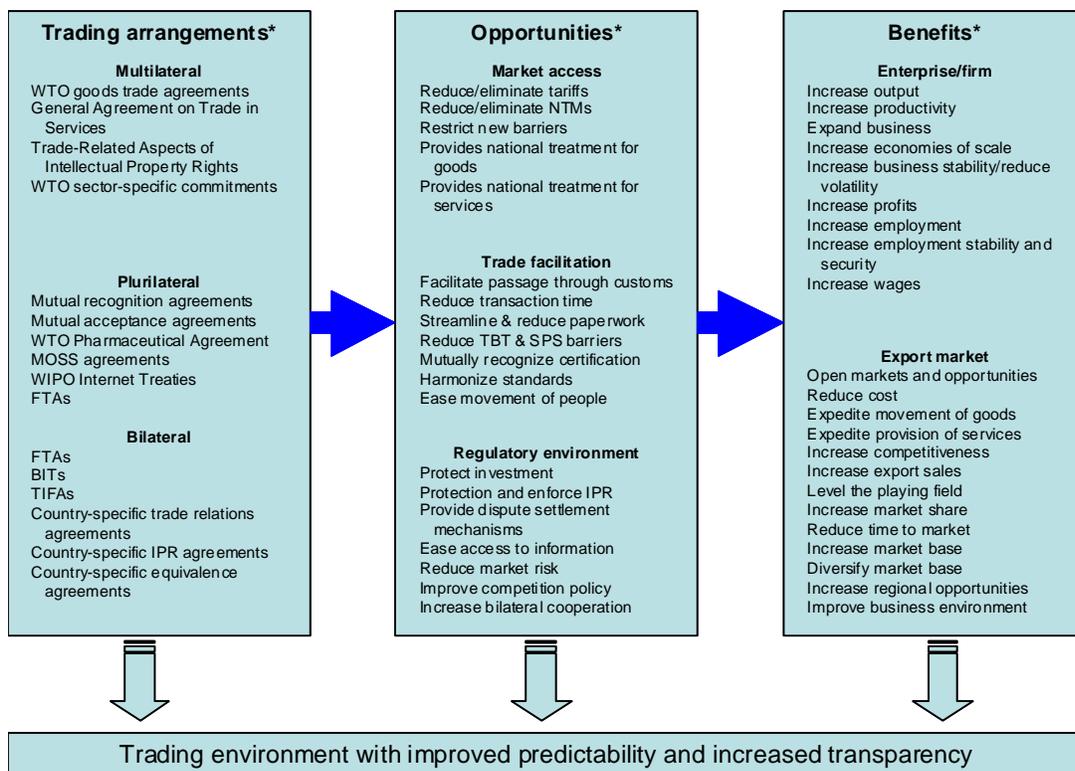
- **reduced costs** through tariff reduction, standards harmonization, mutual recognition of certification, easier information access;
- **reduced time to deliver products or services to markets or reduced delivery time to customers** through customs facilitation and cross-country certification standardization;
- **reduced risks** through greater IPR protection and enforcement, the institution of dispute settlement procedures, increased regulatory transparency, and more predictable regulatory and legal regimes; and
- **access to more and diverse markets.**

Other than limited survey-based research, quantitative assessments of the impact of specific U.S. FTAs and other trading arrangements on SME exports are sparse. The general benefits of increased export activity have, however, been well researched, and are

² There is limited published economic literature that directly assesses how U.S. FTAs or other trading arrangements have benefited U.S. SMEs. Selected articles reviewed during the course of this investigation are cited in appendix E.

supported by extensive economic studies and anecdotal evidence. Without specifying the exact provision or feature they liked, many SME representatives indicated general

FIGURE 5.1 Trading arrangements create export opportunities with the potential to benefit all firms



* Illustrative examples of arrangements, opportunities, and benefits; not intended to be comprehensive.

support for existing and pending FTAs, as well as other trading arrangements.³ Specific benefits of FTAs and other trading arrangements largely fall into the same categories identified above—increased or improved market access, better trade facilitation, and a more favorable regulatory environment.

Increased or Improved Market Access

Researchers and industry organizations have identified tariffs and nontariff measures (NTMs) as significant issues for exporters. In a study of trade barriers faced by SMEs, the OECD stated that

Import tariffs still matter to exporting, in many sectors and markets. Many business surveys on trade barriers draw attention to the fact that import tariffs continue to cause problems for companies that wish to access foreign markets. . . . The practice

³ USITC, hearing transcript, March 12, 2010, 20, 129 (testimony of Katy Coba, Oregon Department of Agriculture); USITC, hearing transcript, March 12, 2010, 120–121 (testimony of Philip Agress, AdvaMed); USITC, hearing transcript, March 10, 2010, 49 (testimony of Cory Simek, U.S. Department of Commerce, Commercial Service); USITC, hearing transcript, March 18, 2010, 81–82 (testimony of James Gore, JB Clawson International); USITC, hearing transcript, March 18, 2010, 101 (testimony of Jameson French, Hardwood Federation); Dixie Chemical Co., written submission to the USITC, January 28, 2010, 1; Fanwood Chemical Inc., written submission to the USITC, January 15, 2010, 1; The Manufacturing Institute, *The Future Success of Small and Medium Manufacturers: Challenges and Policy Issues*, 2006, 19–20.

of tariff escalation is of importance to SMEs, who often sell processed goods rather than semi-processed or raw materials.⁴

The OECD further noted that NTMs are as important as tariffs, if not more so as impediments to SMEs' internationalization.⁵

Tariffs and NTMs also have been identified by agricultural and manufacturing producers as barriers to exporting. In providing advice to SME exporters, a food export association stated that

Duties make it more expensive to import certain products, and decrease the chances of success in a market. . . Non-tariff barriers often favor locally produced goods. Duties (tariffs) and non-tariff trade barriers continue to fall because of organizations like the World Trade Organization (WTO) and Bilateral Free Trade Agreements such as NAFTA, creating more opportunities for U.S. exporters than ever before.⁶

The National Foundation of Independent Business (NFIB) expressed similar concern. According to the NFIB, non-tariff barriers such as regulations and red tape are cited by 40 percent of [SME] manufacturers as hampering their ability to increase sales. Tariffs limit sales for 37 percent of respondents.⁷

Representatives of SMEs from various industries identified the reduction of duties as a general benefit of FTAs, especially NAFTA, as well as of multilateral trade liberalization under the WTO.⁸ Table 5.1 shows that for most U.S. FTA partners, the trade-weighted applied tariff, including preferences, is generally lower than the MFN applied tariff. According to the National Association of Manufacturers (NAM):

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. . . . 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."⁹

⁴ Fliess and Busquets, "The Role of Trade Barriers in SME Internationalisation," OECD 2006, 6.

⁵ Fliess and Busquets, "The Role of Trade Barriers in SME Internationalisation," OECD 2006, 7.

⁶ Food Export-Midwest and Food Export USA-Northeast, "Exploring Export Options: Export for Small & Medium Sized Companies" (accessed April 5, 2010).

⁷ National Foundation of Independent Business, *NFIB National Small Business Poll International Trade*, 2004, 4.

⁸ Apparel industry official, telephone interview by USITC staff, February 23, 2010; manufacturing industry official, interview by USITC staff, Houston, TX, March 2, 2010; hospital supply industry official, interview by USITC staff, Miami, FL, March 3, 2010; aerospace industry official, interview by USITC staff, Miami, FL, March 3, 2010; textile industry official, interview by USITC staff, Boston, MA, March 2, 2010; USITC, hearing transcript, March 10, 2010, 255 (testimony of Thomas Dustman, Sunnen Products Co.); Cange International, written submission to the USITC, January 26, 2010, 3-4, 5.

⁹ National Association of Manufacturers, written submission to the USITC, March 26, 2010, 2.

TABLE 5.1 U.S. FTAs, average tariff rates, by partner

| United States and FTA partners | MFN applied tariff ^a | Applied tariff (including preferences ^a) | Applied tariff (agricultural) | Applied tariff (nonagricultural) |
|--------------------------------|---------------------------------|--|-------------------------------|----------------------------------|
| United States | 1.9 | 1.3 | 2.9 | 1.2 |
| Australia | 5.9 | 6.0 | 2.5 | 6.1 |
| Bahrain | 6.0 | 6.0 | 22.9 | 3.5 |
| Canada | 3.4 | 1.5 | 10.4 | 0.9 |
| Chile | 5.7 | 0.7 | 1.7 | 0.6 |
| Costa Rica | 5.1 | 5.1 | 11.1 | 4.6 |
| Dominican Republic | 8.7 | 5.1 | 8.0 | 4.7 |
| El Salvador | 7.1 | 4.0 | 13.3 | 2.4 |
| Guatemala | 6.3 | 3.7 | 4.7 | 3.5 |
| Honduras | 7.9 | 4.1 | 4.6 | 4.0 |
| Israel | 3.0 | 1.1 | 7.0 | 0.8 |
| Jordan | 9.5 ^b | 5.6 ^b | 9.3 ^b | 5.1 ^b |
| Mexico | 10.9 | 1.8 | 2.6 | 1.7 |
| Morocco | 16.5 | 8.8 | 22.9 | 7.2 |
| Nicaragua | 6.7 ^b | 5.4 ^b | 13.3 ^b | 3.9 ^b |
| Oman | 5.2 | 3.6 | 6.4 | 3.3 |
| Peru | 2.9 | 2.2 | 3.4 | 2.0 |
| Singapore | 0.0 | 0.0 | 0.5 | 0.0 |
| Colombia ^c | 11.8 | 7.9 | 9.9 | 7.7 |
| Panama ^c | 9.6 | 9.6 | 13.6 | 9.4 |
| South Korea ^c | 7.1 | 7.1 | 90.4 | 3.7 |

Sources: World Bank, *World Trade Indicators 2009-10*, Country-specific “Trade-at-a-Glance Tables,” (accessed February 2010). Data definitions available at http://siteresources.worldbank.org/INTRANETTRADE/Resources/239054-1261083100072/WTI2010_User_Guide.pdf.

^a Trade-weighted average.

^b Latest available data: 2006 or 2007.

^c FTA not yet implemented.

Other benefits from lower tariffs and NTMs identified by SME representatives include an improvement in international competitiveness, or a so-called “leveling of the playing field,” in export markets as a result of duty reduction.¹⁰ At the Commission’s hearings for this investigation, a wide range of SMEs reported that improved access in FTA partner markets has substantially increased their exports. For example, U.S. potato industry representatives pointed to “the success of DR-CAFTA” for their industry, noting that after the agreement was implemented their market share increased by 83 percent as a result of the competitive advantages conferred by the DR-CAFTA tariff reductions.¹¹ Industry representatives attributed increased apple exports to Morocco and Peru to the U.S. FTAs with these countries.¹² A U.S. textile industry representative stated that most

¹⁰ Chemical industry official, interview by USITC staff, February 9, 2010; export financing industry official, interview by USITC staff, Miami, FL, March 4, 2010; food and beverage industry official, interview by USITC staff, Miami, FL, March 4, 2010; USITC, hearing transcript, March 12, 2010, 215 (testimony of Matt Harris, Washington State Potato Commission).

¹¹ Washington State Potato Commission, written testimony to the USITC, March 12, 2010, 6; USITC, hearing transcript, March 12, 2010, 220 (testimony of Matt Harris, Washington State Potato Commission).

¹² Industry officials, telephone interviews by USITC staff, December 2009–February 2010.

of its exports are to countries with which the United States has signed FTAs or other trading arrangements.¹³

Market Access: Selected Examples of Trade Agreement Benefits to U.S. SMEs

The following section provides four examples of improvements in market access that benefited U.S. SME exports as a result of trade agreements: duty reductions on remanufactured goods under U.S. bilateral FTAs; duty reductions on valves under NAFTA; duty reductions on pharmaceutical products under the WTO Pharmaceutical Agreement; and rules of origin under the DR-CAFTA for the textile and apparel industry.

Remanufactured goods: Reductions in tariffs and NTMs create export opportunities for SMEs

The U.S. remanufactured goods industry¹⁴ includes large and small firms, the majority being SMEs.¹⁵ Many countries restrict trade in remanufactured products through import bans, tariffs, regulations, and certification or inspection requirements.¹⁶ According to SME remanufacturers, these barriers have inhibited export sales, and removing the barriers would make it easier to increase exports. One SME remanufacturer stated that companies in his industry do not export substantial amounts to South America, in part because of existing bans on imports of remanufactured products.¹⁷ According to Ron Giuntini, executive director of the OEM Product-Services Institute, “Remanufacturing represents perhaps the largest untapped resource for productivity improvement in American industry.”¹⁸

Early U.S. FTAs with Israel, Canada, Mexico, and Jordan did not include specific provisions covering remanufactured goods.¹⁹ It was not until the U.S. FTAs with Chile and Singapore in 2004 that market access for remanufactured goods was incorporated into the agreements by defining remanufactured goods in the agreements’ rules of origin chapter.²⁰ Two years later in the 2006 DR-CAFTA, remanufactured goods were included

¹³ Buhler Quality Yarns Corp., written submission to the USITC, January 29, 2010, 2.

¹⁴ Remanufacturing is an industrial operation that uses existing products, recovered from commercial use, as inputs. Many parts of the recovered goods are still functional and technologically current, requiring only worn or outdated components to be repaired, replaced, or updated. A broad range of industries and companies remanufacture products, including companies from the earth-moving, automotive parts, electronics, medical device, and information technology industries. WTO, Negotiating Group on Market Access, *Market Access for Non-Agricultural Products*, December 5, 2005, 1.

¹⁵ Grose, “Wringing Gold From the Old,” *ASEE PRISM*, Summer 2007, 1 (accessed March 23, 2010).

¹⁶ WTO, Negotiating Group on Market Access, *Market Access for Non-Agricultural Products: Negotiating NTBs Related to Remanufacturing and Refurbishing*, TN/MA/W/18/Add.11, December 5, 2005, 2, <http://www.reman.org/pdf/WTO-reman.pdf>.

¹⁷ Medical equipment remanufacturing company official, interview by USITC staff, April 21, 2010. He added that opening markets to remanufactured products would be most helpful to the automotive and aircraft industry.

¹⁸ Quoted in Grose, “Wringing Gold From the Old,” *ASEE PRISM*, Summer 2007, 1 (accessed March 23, 2010).

¹⁹ Information for remanufactured goods and U.S. FTAs was derived principally from USTR, “Free Trade Agreements,” (accessed March 10, 2010).

²⁰ The definition of remanufactured goods is fairly standard among these FTAs. It begins with the definition of “recovered goods,” which basically means individual parts obtained by complete disassembly of used goods and cleaned, inspected, tested, or otherwise processed as necessary for improvement to sound working condition. “Remanufactured goods” means industrial goods assembled in the territory of a party that are entirely or partially composed of recovered goods and that have similar life expectancies, meet similar performance standards, and have similar factory warranties to those of the new goods that they could replace.

in the market access chapter as well as the rules of origin (ROO) chapter. These provisions continued in subsequent U.S. FTAs with Morocco, Bahrain, Oman, and Peru.²¹ In addition to lowering tariffs, these provisions opened markets—prior to the FTA, Peru prohibited the importation of remanufactured goods.²² According to the NAM, the provisions of the pending U.S.-Colombia and U.S.-Korea FTAs covering remanufactured goods would provide significant export and investment opportunities for U.S. firms involved in remanufactured products, such as machinery, computers, cellular telephones, medical equipment, automotive parts and equipment, and other devices.²³

Valves: SMEs benefit from NAFTA duty reductions

The United States is the largest producer of industrial valves worldwide, with several large firms making a wide variety of valves and many SMEs producing valves for specific niche markets. Canada and Mexico are the largest export markets for U.S. industrial valves, most of which are used in energy-related and water and wastewater management sectors.

Duty reductions under NAFTA, as well as its precursor, the U.S.-Canada FTA (CFTA), have benefited U.S. exporters of valves to Canada and Mexico. Under CFTA, tariffs on U.S. valve exports to Canada were reduced from 8 percent ad valorem to zero. NAFTA resulted in the reduction of tariffs on U.S. valve exports to Mexico from 10–15 percent to zero. One SME valve manufacturer contacted by the Commission stated that the NAFTA tariff reductions on valves allowed that company to improve its price-competitiveness in the Canadian and Mexican markets.²⁴

WTO Pharmaceutical Agreement: Tariff elimination levels the playing field for SMEs

The WTO Pharmaceutical Agreement provides for reciprocal tariff elimination for a major share of pharmaceutical products and chemical intermediates used in the production of pharmaceuticals.²⁵ Although large firms account for most pharmaceutical production and exports, SMEs have benefited from the agreement. According to U.S. government data, there were about 1,300 pharmaceutical SME exporters in 2007.²⁶

Industry sources contacted by the Commission reported that the Pharmaceutical Agreement provides several advantages to SME exporters. In addition to duty elimination, several SMEs cited the ease of using the program, the establishment of a “level playing field,” and the establishment of a consistent trading environment to be among the benefits of the agreement. These benefits are of particular importance to SMEs, because SMEs

²¹ The FTAs differ on which remanufactured goods are allotted market access. For example, the FTAs with Chile and Singapore provide market access only to specific remanufactured products classified in HS chapters 84, 85, 87, and 90, whereas DR-CAFTA and the FTAs with Australia and Peru provide market access to all remanufactured products classified under HS Chapters 84, 85, and 87 (with few exclusions) and certain products of chapter 90 (all Chapter 90 products for the Peru FTA). The FTAs with Morocco, Bahrain, and Oman provide market access to all remanufactured goods.

²² USTR, *2005 National Trade Estimate Report on Foreign Trade Barriers: Peru*, 481 (accessed April 9, 2010).

²³ National Association of Manufacturers, “Request for Comments Concerning Free Trade Agreement with Colombia,” September 15, 2009, 4; “Request for Comments Concerning Free Trade Agreement with the Republic of Korea,” September 15, 2009, 7.

²⁴ Andy Ross (Ross Valve Manufacturing), telephone interview by USITC staff, March 18, 2010.

²⁵ The agreement was implemented in 1995 as part of the Uruguay Round. Signatories to the WTO Pharmaceutical Agreement are the United States, Australia, Canada, the European Union and its 27 member states, Japan, Norway, Switzerland, and Macao. USTR, “Pharmaceuticals,” (accessed May 25, 2010).

²⁶ Data are compiled from official Census statistics (NAICS 3254, Pharmaceuticals and Medicines).

generally have fewer personnel and financial resources available to navigate the individual requirements of different export markets. Market consistency reduces the information acquisition costs, providing SMEs with improved and expanded export opportunities.²⁷

Textiles and apparel: DR-CAFTA rules of origin support SME participation in regional production networks

The DR-CAFTA rules of origin provide incentives for companies located in partner countries to use U.S.-produced inputs rather than inputs from non-partners, in order to qualify for duty-free treatment under the FTA.²⁸ While the benefits to an individual firm of a particular FTA vary, industry sources reported that many U.S. SME textile companies facing low-cost Asian competitors would no longer be in business without the DR-CAFTA rules of origin provisions.²⁹ Although the provisions were sometimes viewed as complicated, difficult to understand, and hard to enforce, they have reportedly benefited SMEs that export inputs to FTA countries for use in the production of products ultimately sold to U.S. customers.³⁰ As a result, these FTA provisions facilitate the establishment of regional supply chains whereby companies in FTA partner countries source components from U.S. companies, thereby increasing U.S. exports to the FTA partners.

A written submission received for this investigation from Buhler Quality Yarns stated that “FTAs have proven to have the most benefits for our products, out of the 50 percent exported, about 40 percent are to countries with FTAs or other trade agreements. CAFTA and the Singapore FTA have been most beneficial to our company.”³¹ In a 2008 interview, a representative of Buhler also stated that a U.S. production facility would also “benefit from the various bilateral US FTAs [such as NAFTA and CAFTA], which usually require US or regional spun yarns in order for bringing garments made of those yarns duty free in the US market place.”³²

²⁷ Industry officials, telephone interviews with USITC staff, March 5, 2010; industry officials, telephone interviews with USITC staff, February and March 2010; industry official, interview with USITC staff, Boston, MA, March 3, 2010; industry official, telephone interview with USITC staff, March 23, 2010; USITC, *Advice Concerning the Addition of Certain Pharmaceutical Products and Chemical Intermediates*, 2006.

²⁸ The DR-CAFTA eliminated duties on textiles and apparel that meet certain rules of origin. The rules of origin for apparel generally require that the “essential character component” for imports of most textile and apparel articles from the FTA countries be made from inputs produced in the FTA countries or the United States, usually from the yarn stage forward. Although there are exceptions, in general, under this “yarn forward” rule of origin, only the fibers may be from third countries. For additional information, see USDOC, ITA, Trade Information Center, “U.S.-CAFTA-DR Free Trade Agreement: Rules of Origin,” May 25, 2010.

²⁹ Textile and apparel industry officials, interviews by USITC staff, February 19, 23, and 26, 2010, and March 2, 2010.

³⁰ *Ibid.*

³¹ Buhler Quality Yarns, Corp., written submission to the USITC, January 29, 2010, 1–2.

³² *Face2Face*, “Interview: Mr Werner Bieri—President & CEO, Buhler Quality Yarns Corporation,” May 26, 2008.

*Improved Trade Facilitation*³³

Trade facilitation refers to a broad range of measures to streamline and simplify international trade procedures to allow for an easier flow of goods and services across borders.³⁴ Through trade agreements, countries can facilitate trade by streamlining and reducing the administrative burdens associated with customs procedures; harmonizing standards; arranging mutual recognition of certification; and taking steps to ease the movement of people.

Customs Procedures

SMEs contacted by the Commission pointed to a number of ways in which improvements in customs procedures could lead to greater exporting opportunities. For example, measures such as reducing the amount of paperwork needed to file for exporting under NAFTA cut costs and shortened the time needed to conduct transactions.³⁵ Textile and apparel firms noted that FTAs typically add “transparency and predictability” to the export process, thereby facilitating and expediting the customs processes;³⁶ this improvement is reportedly very important to textile and apparel firms, for which “speed to market” is essential.³⁷ Several Miami-based exporters commented that FTAs “reduce the time for producing permits,” make “customs move faster,” and help “move cargo all along the Americas.”³⁸ Improving customs is particularly important for SMEs, as the administrative and financial burdens of customs procedures can be particularly onerous, and therefore discouraging, for their small staffs.³⁹

Standards Harmonization and Mutual Recognition of Certification

By establishing standardized regulations or mutually recognized or accepted certifications, governments can help SMEs substantially cut their export costs. The WTO reported that “regulatory convergence is especially beneficial for [SMEs]” because such firms “necessarily devote a larger percentage of their operating budgets to regulatory compliance than do large enterprises, so they are particularly impacted by having to comply with a multitude of regulations across different jurisdictions.”⁴⁰ For example, a representative of a small dental company noted that because of the role of certification in accessing foreign markets, establishment of an MRA could allow a company to enter up

³³ Research on SMEs in other countries has also supported the USITC findings on the importance of increased trade facilitation. For example, a study of 15,000 firms in Asian countries (of which 60 percent were SMEs with under 100 employees) that focused on the role of trade facilitation suggested that reforms would both increase the probability of a firm’s exporting and increase the amount of its exports. Increased trade transparency and IT services were seen as especially effective in increasing exports, and SMEs’ exporting behavior was significantly more responsive to policy predictability than was the case for all firms. Li and Wilson, “Trade Facilitation and Expanding the Benefits of Trade,” June 2009, 1.

³⁴ More information on trade facilitation is available from OECD, “Trade Facilitation,” (accessed May 25, 2010); World Bank, “Trade Facilitation” (accessed May 25, 2010); WTO, “Trade Facilitation” (accessed May 25, 2010).

³⁵ Manufacturing industry official, interview by USITC staff, Miami, FL, March 3–4, 2010; aerospace industry official, interview by USITC staff, Miami, FL, March 3, 2010; EVO, written submission to the USITC, April 2, 2010, 1–2.

³⁶ Industry officials, telephone interviews by USITC staff, January 27, February 19, and 23, 2010.

³⁷ Industry officials, telephone interviews by USITC staff, February 17, 23, and 26, 2010.

³⁸ IT industry official, interview by USITC staff, Miami, FL, March 3–4, 2010; marine industry official, interview by USITC staff, Miami, FL, March 3–4, 2010; consulting industry official, interview by USITC staff, Miami, FL, March 3–4, 2010.

³⁹ USITC, hearing transcript, March 18, 2010, 142 (testimony of James Gore, JB Clawson International).

⁴⁰ WTO, “The Importance of Regulatory Cooperation for Improving Governments’ Ability to Fulfill Legitimate Policy Objectives While Facilitating Trade,” June 15, 2009, 6.

to “50 countries.”⁴¹ In addition, standardization may support the effectiveness of other market access opportunities, such as tariff reductions. According to a representative for the Emergency Committee for American Trade, “to the extent that the rules are simplified, standards are harmonized, and procedures are ones that are more consistent across borders, you find that smaller and medium-sized companies find it easier to comply with the requirements and take advantage of the reduction in tariffs that are provided.”⁴²

Another way in which trading arrangements benefit SME exporters is through provisions that make it easier for individuals to move across borders. Many witnesses remarked on the difficulty of obtaining U.S. and foreign visas to support export-associated activities such as trade shows, product demonstrations, and training.⁴³ Treaties such as NAFTA that ease the temporary entry of business people provide opportunities for SMEs to receive foreign customers and send suppliers abroad. This is critical for SME exporters of both manufactured goods and professional services, especially for industries with language- or cultural context-dependent services like advertising.⁴⁴

Trade Facilitation: Selected Examples of Trade Agreement Benefits to U.S. SMEs

The following section provides four examples of improvements in trade facilitation that have benefited U.S. SME exports as a result of trade agreements. They include lower costs and increased speed to market for the telecommunications industry as a result of MRAs; standards harmonization for medical devices as a result of a U.S.-Japan bilateral agreement; mutual acceptance of certain practices and labeling rules for the U.S. wine industry as a result of MAAs; and mutual acceptance of certification for producers of organic products from a U.S.-Canada bilateral agreement.

Telecommunications: MRAs cut costs and increase speed to market

Telecommunications is included in many U.S. MRAs. Both the negotiation and the implementation phases of an MRA provide benefits to SMEs.⁴⁵ The first phase calls for the mutual acceptance of test data, leading to equipment approvals by agencies in a target

⁴¹ USITC, hearing transcript, March 12, 2010, 175 (testimony of Grant Ramaley, Aseptico, Inc.).

⁴² USITC, hearing transcript in connection with Invs. nos. TA-131-034 and TA-2104-026, U.S.-Trans-Pacific Partnership Free Trade Agreement: Advice on Probable Economic Effect of Providing Duty-Free Treatment for Imports, March 2, 2010, 261 (testimony of Calman J. Cohen, Emergency Committee for American Trade).

⁴³ USITC, hearing transcript, March 12, 2010, 14 (testimony of Tim McCabe, The Oregon Business Development Department); USITC, hearing transcript, March 12, 2010, 49 (testimony of Ann Bunnenberg, Electrical Geodesics, Inc.); USITC, Hearing transcript, March 12, 2010, 85 (testimony of Katy Coba, Oregon Department of Agriculture); USITC, hearing transcript, March 10, 2010, 54–55 (testimony of Cory Simek, U.S. Department of Commerce, Commercial Services); USITC, hearing transcript, March 10, 2010, 158, 161, 200–201 (testimony of Thomas Dustman, Sunnen Products Co.); USITC, Hearing transcript, March 10, 2010, 202 (testimony of Rudi Roeslein, Roeslein & Assoc.); USITC, hearing transcript, March 10, 2010, 203 (testimony of Karen Bomba, Zoltek Corp.); USITC, hearing transcript, March 18, 2010, 138 (testimony of Spencer Ross, National Institute for World Trade).

⁴⁴ Industry officials, interview by USITC staff, New York, NY, February 18, 2010.

⁴⁵ Telecommunication MRAs include two phases. In the first phase, a regulatory agency in the foreign market reviews the reports of the tests done to products within the United States for the U.S. market. Then, by comparing the U.S. tests and the foreign tests, they can determine whether to rate the product as acceptable within the foreign market. In the second phase, testing bodies within the United States are certified to test U.S. products to foreign standards. This will then allow the products to be exported directly to foreign market without passing through inspection. USTR negotiates these agreements on behalf of the FCC for all products involving networks and network access, radio frequency absorption, bandwidth emission, and absorption rates for radiation. Industry association official, telephone interview by USITC staff, February 3, 2010.

market; the second phase calls for mutual acceptance of the equipment approvals themselves. MRAs also deal with another significant impediment to SME exports: exporters' need to find pertinent information about a market's rules and regulations. Before and during negotiations, partner governments exchange research and information, resulting in a complete collection of relevant regulatory and legal information about all parties, collected at a single location within each country. This process of information exchange benefits potential SME exporters by reducing the time and other expenses associated with information acquisition—costs that SMEs typically can ill afford. As an industry official commented, “Just finding out the rules is a problem—larger companies with a local presence can more easily uncover the regulations than can an SME.”⁴⁶

Consolidated testing and the associated reduction in the time to market are among an MRA's most important benefits.⁴⁷ MRAs reduce SME costs because SMEs can “get a product tested in one place, at one time against requirements to sell to multiple markets.”⁴⁸ MRAs are especially useful for SMEs that focus on innovative and high-technology products; because high-tech products have a relatively short life cycle, the faster a product can arrive at a destination market, the better it is for the producer.⁴⁹

U.S.-Japan Market-Oriented, Sector-Selective Agreement: Harmonization reduces time and costs for SMEs

The principal export barrier for U.S. SME medical devices exporters is the set of differing and complex regulatory requirements among trade partners. For these SMEs, trading arrangements that help to harmonize standards and regulations across markets potentially offer increased export opportunities.⁵⁰ For example, the U.S.-Japan Market-Oriented, Sector-Selective (MOSS) Agreement has helped reduce the cost and time associated with exporting medical devices to Japan by streamlining Japanese approval and licensing procedures and establishing a more transparent pricing mechanism for devices.⁵¹

Before the MOSS agreement, significant clinical diagnostic tests conducted in the United States for medical devices had to be duplicated in Japan. These redundancies posed a formidable barrier for U.S. medical device SMEs seeking to export to Japan, as the cost of these tests proved prohibitively expensive—upwards of \$100 million.⁵² Because of the MOSS Agreement, potential customers in Japan have become more willing to accept clinical test data from the United States in lieu of conducting another round of tests.⁵³

Mutual Acceptance Agreements: SME wine exporters become more competitive abroad

U.S. FTAs provide several benefits to domestic SME wine exporters, particularly by lowering tariffs and delivering Mutual Acceptance Agreements (MAAs) covering oenological (winemaking) practices and labeling rules. Though FTAs lower tariff costs for all U.S. wine exports, they are particularly helpful to the export-competitiveness of

⁴⁶ Telecommunications industry official, telephone interview by USITC staff, February 19, 2010.

⁴⁷ Telecommunications industry official, telephone interviews by USITC staff, February 19 and 26, 2010.

⁴⁸ Telecommunications industry official, telephone interview by USITC staff, February 19, 2010.

⁴⁹ Ibid.

⁵⁰ USITC, *Medical Devices and Equipment*, 2007, 5–6.

⁵¹ Trade Compliance Center, “Report on the U.S.-Japan Market-Oriented, Sector-Selective Discussions on Medical Equipment and Pharmaceuticals” (accessed March 26, 2010).

⁵² E-mail survey of industry officials (in San Jose-based association) by USITC staff, March 2, 2010.

⁵³ USITC, hearing transcript, March 12, 2010, 120 (testimony of Philip Agress, AdvaMed).

SME wineries, which typically export small quantities of higher-value products.⁵⁴ Lower tariffs benefit SME wineries because tariffs in many export markets are applied on an ad valorem (value) basis, raising the absolute cost of tariffs on high-value SME wine products.⁵⁵

Under the oenological MAAs, which were established under the WTO TBT Agreement, signatories agree to accept wine from other signatory countries so long as the wine is produced in accordance with the laws and regulations of the signatory country.⁵⁶ These MAAs benefit small U.S. wine exporters because they can lower costs of compliance with various foreign market regulations—as costs are proportionally higher for SMEs that export relatively small volumes—effectively establishing greater regulatory consistency among different export markets.⁵⁷ For example, the 2007 labeling MAA lowers production cost for U.S. wineries because wineries do not have to produce and affix different labels for each WTTG member market. In addition, SMEs do not have to specially produce wine to the standards of the export market country, which could be prohibitively costly given their relatively small scale of production. According to a U.S. industry source, the U.S.-EU MAA provides stability to the EU wine market. Prior to the agreement, the EU provided only derogations or temporary acceptance of certain U.S. winemaking practices.⁵⁸ This constraint dissuaded U.S. SMEs from actively developing EU markets because of the uncertainty, cost, and time-intensity of the procedures for getting the European Commission’s approval to import shipments. A representative of JB Clawson, a company that represents the U.S. wine industry on matters of international affairs and trade policy, stated that “the U.S.-EU Bilateral Trade Agreement in wine has been very effective and helpful to us.”⁵⁹

⁵⁴ Several U.S. industry representatives indicated that a number of free trade agreements (FTAs) have been established with countries that are not traditional wine markets, so the benefits have been limited. Industry sources report that the U.S.-Korea FTA would have been much more beneficial if ratified soon after it was negotiated in April 2007. In the meantime, Korea has entered into FTAs with other leading wine exporters such as Chile and the EU, while the FTA awaits passage in the U.S. Congress. Industry official, interview by USITC staff, February 4, 2010; industry official, telephone interview by USITC staff, February 11, 2010.

⁵⁵ Trade agreements also indirectly benefit SMEs by improving market access to large U.S. wineries that use their considerable marketing resources to enter and develop markets, serving as “trailblazers” for the SME wineries that follow. Industry official, telephone interview by USITC staff, February 10, 2010.

⁵⁶ The United States has entered into three such MAAs. Two agreements have been established with members of the World Wine Trade Group (WWTG), an organization comprising major non-European wine-producing nations, including Argentina, Australia, Canada, Chile, New Zealand, South Africa, and the United States. The MAA on mutual acceptance of winemaking practices among WTTG countries entered into force in December 2001. A second MAA, which entered into force in December 2007, established uniform bottle-labeling regulations. The third MAA, between the United States and the EU, entered into force in March 2006. It related to winemaking practices, including materials, processes, treatments, and techniques permitted by law in the exporting party, though it excluded labeling, bottling, or packaging regulations. World Wine Trade Group, “World Wine Trade Group” (accessed March 12, 2010); Department of Commerce, International Trade Administration, “World Wine Trade Group” (accessed March 12, 2010); World Wine Trade Group, “Achievements” (accessed March 12, 2010); Department of Commerce, International Trade Administration, “Agreement on Mutual Acceptance of Oenological Practices,” Article 4(b) (accessed March 12, 2010).

⁵⁷ Industry official, interview by USITC staff, February 4, 2010; industry official, telephone interview by USITC staff, February 11, 2010.

⁵⁸ Wine Institute, “Welcome to the Wine Institute” (accessed March 12, 2010).

⁵⁹ JB Clawson also stated that about 15–20 percent of all U.S. wine is exported, and that SMEs represent 99 percent of the wine industry but only 20–30 percent of export value. He added that competitiveness in the Korean market was eroding as a result of its FTAs with Chile and the EU. All information related to JB Clawson is from USITC, hearing transcript, March 18, 2010, 77, 80, 81, 97 (testimony of James Gore, JB Clawson International).

U.S.-Canadian Agreement for Organic Trade Equivalence: SME farmers and processors cut certification costs

On July 1, 2009, the United States and Canada entered into an equivalency agreement to recognize each other's national organic certification programs. The equivalence agreement permits producers and processors that are certified to the National Organic Program (NOP) standards by a U.S. Department of Agriculture (USDA) accredited certifying agent to sell or label their product as organic in Canada without under going certification to the Canada Organic Product Regulation standards, and vice versa.⁶⁰

Equivalency increases opportunities for U.S.-based NOP-certified organic agricultural exporters, primarily SMEs,⁶¹ to export to Canada by eliminating the fees associated with gaining Canadian organic certification.⁶² This change is estimated to save NOP-certified small organic producers and small organic processors exporting to Canada approximately \$2,000 and \$2,400, respectively. Equivalency also eliminates the \$14,000–\$20,000 fee that U.S.-based NOP-accredited certifying agents are charged to provide Canadian organic certification to U.S. organic producers and processors that export. These savings can be passed on to these organic exporters in the form of lower certification fees.⁶³

More Favorable Regulatory Environment

The role of a favorable regulatory environment in supporting SME exports is important. Specific instances are difficult to identify, however, because the effect of a regulatory environment cuts across many sectors and may be seen as simply an overhead cost of exporting to a particular market. As with other overhead costs, they can be more burdensome to SMEs than large firms that can spread out these fixed costs over more products or markets. FTAs can provide SMEs with the benefit of transparency and predictability.⁶⁴ For some FTA partners, where tariffs and NTMs are relatively smaller, the main benefit can be regulatory consistency.⁶⁵

Regulatory Environment: Selected Examples of Trade Agreement Benefits to U.S. SMEs

The following section provides two examples of improvements in the regulatory environment that benefited SME exports as a result of trade agreements: the benefits to the wood pallet and container industry from U.S. participation in international phytosanitary agreements, and the benefits to the biotechnology industry from agreements that support IPR protection and enforcement.

⁶⁰ USDA, "Agriculture Deputy Secretary Merrigan Announces U.S.–Canada Agreement for Organic Trade Equivalence," June 17, 2009.

⁶¹ Industry official, e-mail message to USITC staff, February 25, 2010.

⁶² Dimatteo and Holmes, "The New Canadian Organic Regulations and the Case for Equivalency," *Organic Processing Magazine*, April 2009.

⁶³ These saving can vary greatly depending on the sales and size of a firm. Industry official, e-mail message to USITC staff, February 25, 2010.

⁶⁴ Apparel industry official, interview by USITC staff, February, 19, 2010.

⁶⁵ "Another company noted that in some of our FTA partner countries, like Australia, the real benefit has been regulatory consistency, rather than tariff reduction." National Association of Manufacturers, written submission to the USITC, March 26, 2010, 2.

Wood packaging materials: International phytosanitary agreements allow U.S. producers to keep market share

Phytosanitary standards, such as those in the International Plant Protection Convention (IPPC), make it easier for U.S. producers to produce and sell wood packaging materials such as pallets, crates, and containers for use in international trade. The IPPC standards replace a variety of national standards addressing the problems of pests harmful to plants and forests that are known to be transmitted in international shipments of goods transported on wood pallets or in wooden containers.⁶⁶

Almost all U.S.-produced wood pallets and containers are made by SMEs, and more than half of all U.S. goods exports are shipped on wooden pallets or in wooden containers.⁶⁷ The U.S. wood pallet and container industry comprises approximately 5,000 manufacturers employing more than 50,000 workers.⁶⁸ Absent IPPC standards, it is likely that disparate, inconsistent, and arbitrary regulations on the use of wood packaging by different countries, would have continued to disrupt international commerce. More than 130 countries now require that pallets and other wood packaging materials be certified to the IPPC standard. Although the required treatment increases production costs, the wide acceptance of the IPPC standard establishes a single global standard for wood pallets that has allowed U.S. pallet producers to maintain their global market share.

Intellectual property rights: Agreements protect SME innovation and exports

The United States is a party to a number of agreements and institutions that support IPR protection and enforcement, which benefit SME exporters. One of the most important trade agreements protecting IPR is the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). TRIPS requires all WTO members “to apply the substantive obligations of the world’s most important intellectual property conventions” and “ensures that critical enforcement procedures will be available in each member country to safeguard intellectual property rights.”⁶⁹ Other important intellectual property agreements are administered by the World Intellectual Property Organization (WIPO), which is part of the United Nations system. The WIPO Copyright Treaty and the Performance and Phonograms Treaty (together, the “WIPO Internet Treaties”) provide a legal framework for protecting copyrights and related rights in the digital environment. WIPO also administers the Patent Cooperation Treaty (PCT) and the Madrid System, which streamline and centralize requirements for seeking patents and trademarks in multiple countries.⁷⁰ In addition to these multilateral agreements, U.S. bilateral FTAs

⁶⁶ The United States is one of 172 countries that are signatories of the convention. In 2002, the IPPC adopted the International Standards for Phytosanitary Measures Guidelines for Regulating Wood Packaging Material in International Trade (ISPM 15), which was revised in 2006 and 2009. International Plant Protection Convention, “International Standards for Phytosanitary Measures (ISPMs),” revision of ISPM 15, 2009 (accessed March 16, 2010).

⁶⁷ Industry official, telephone interview by USITC staff, March 12, 2010.

⁶⁸ Bush and Araman, *Updated Pallet and Container Industry Production and Recycling Research*, October 11, 2008, 6, 28.

⁶⁹ *Uruguay Round Trade Agreements, Texts of Agreements, Implementing Bill, Statement of Administrative Action, and Required Supporting Statements: Message from the President of the United States*, 103d Congress, 2d Session, U.S. Government Printing Office: Washington DC, 1994, 981.

⁷⁰ In a communication to the USITC for this study, an SME expressed “satisfaction” with the Madrid Protocol and encouraged the expansion of participating countries. The Merry Hempsters, written submission to the USITC, March 26, 2010, 2.

provide additional IPR protections.⁷¹ Intellectual property (IP) reliant industries, such as pharmaceuticals and biotechnology and the core copyright industries (including motion pictures, recording, and business and entertainment software), particularly support these “TRIPS plus” provisions.

Many SMEs identified inadequate IPR protection and enforcement in foreign markets as an issue or barrier to exporting efforts.⁷² SMEs are a significant source of IP intensive products and services. IP is often a small firm’s most valuable asset, critical to the firm’s ability to raise capital. A 2008 study of Canadian SMEs found that small businesses reporting research and development investment were two times more likely to export than those without.⁷³ SMEs may be disproportionately affected by the sizable costs of obtaining foreign patents, since they have fewer financial resources than large firms. In 2003, GAO estimated costs ranging from \$160,000 to \$330,000 for a U.S. firm to obtain and maintain a patent in nine foreign countries. One SME official interviewed estimated foreign patenting costs in excess of \$500,000.⁷⁴

Many innovative high-technology industries, such as the U.S. biotechnology industry, are composed primarily of SMEs and rely heavily on IPR protection.⁷⁵ A comparison of a list of U.S. SMEs that were not owned by any other company and that were classified under “biological products, except diagnostic substances” (which falls under the broad drugs category) with the WIPO records of all firms seeking patent protection in more than one country under the Patent Cooperation Treaty revealed that 88 percent of the U.S. SMEs had filed for patent protection in multiple countries through WIPO. Because of the substantial cost of obtaining patents, it is likely that these firms have active plans to export or are exporting their IP (for example, by licensing technology to overseas customers).⁷⁶

SME Company Performance and Hurdles

The benefits of increased market access, trade facilitation, and a better regulatory environment translate into tangible improvements in SME company performance. By

⁷¹ The IPR chapters of the FTAs add to the requirements of TRIPS in a number of areas, including (1) the extension of patent terms for delays caused by the regulatory process; (2) obligations to provide patent protection for animal and/or plant inventions; (3) linkage between patent status and the granting of drug marketing approval; (4) pharmaceutical test data protection; (4) the extension of copyright terms of protection; (5) protection against the circumvention of technological protection measures; (6) limited liability for Internet service providers that block infringing content online; (7) enhanced border measures; and (7) obligations to join specified IPR treaties such as the WIPO Internet Treaties.

⁷² See for example, USITC, Hearing transcript, March 12, 2010, 120 (testimony of Matt Nees, Software Association of Oregon); USITC, hearing transcript, March 10, 2010, 37 (testimony of Chris Albert, Media Wizard Inc.); USITC, hearing transcript, March 10, 2010, 150 (testimony of Thomas Dustman, Sunnen Products Co.); USITC, hearing transcript, March 18, 2010, 58–59 (testimony of Spencer Ross, National Institute for World Trade); USITC, hearing transcript, March 18, 2010, 98 (testimony of James Gore, JB Clawson International); USITC, hearing transcript, March 18, 2010, 210 (testimony of Joseph Reddix, The Reddix Group, LLC).

⁷³ Orser, et al., *Canadian SME Exporters*, January 2008.

⁷⁴ Industry official, telephone interview by USITC staff, February 24, 2010; GAO, *International Trade*, June 2003, 54.

⁷⁵ The U.S. Supreme Court is regarded as having spurred the growth of the biotechnology industry with its 1980 decision in *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980), holding patentable a genetically engineered oil-eating bacterium. In the following decades, the industry grew from a handful of small firms to a major industry with a market capitalization of more than \$400 billion. Barfield and Calfee, *Biotechnology and the Patent System*, 2007, 4.

⁷⁶ Data are for SIC 2836 and were gathered from Orbis, a database containing financial information for more than 65 million international companies (accessed February 3, 2010).

enabling SMEs to expand and diversify their markets, trading arrangements offer SMEs stability, higher output, and increased employment. SMEs have commented that exporting has kept them viable during the recent weakness in the U.S. economy.⁷⁷ In general, “businesses involved in exporting, both large and small, are generally weathering the U.S. downturn much better than businesses tied solely to the domestic economy.”⁷⁸ These perceptions are supported by economic analysis. For example, one study reported evidence that trade liberalization causes relatively faster growth in output and employment among high-productivity exporting firms, with a smaller body of results suggesting a less pronounced but still important effect of trade liberalization on firm productivity.⁷⁹ The OECD has also identified numerous benefits to SME company performance, including expanded output, productivity growth, increased economies of scale, improved profitability, and higher wages.⁸⁰

Industry representatives identified two obstacles as impeding access to the benefits of FTAs and other trading arrangements. First, many SMEs simply do not know about existing U.S. trading arrangements and their provisions, and therefore cannot take advantage of the increased export opportunities they afford.⁸¹ For example, some pharmaceutical industry representatives noted that many SMEs were unaware of relevant U.S. trade agreements. Although a few SMEs have internationally experienced personnel, many SMEs do not, and some may end up relying on contacts in other companies, state and federal agencies, or contract assistance for guidance.⁸² Second, SMEs that did know of trading agreements found them too confusing or complicated to understand, especially the rules of origin.⁸³ With limited resources, SMEs generally lack the capacity to identify the benefits that might be useful and then to use the benefits. According to an SME, “The real barrier is the burden of understanding FTAs; from a business perspective, it is not feasible to staff up in order to understand the complexity, and there is too much paperwork for small shipments.”⁸⁴

Widespread Benefits of Trade Agreements for U.S. SMEs

Anecdotal SME Support for FTAs

SMEs profiled by the Faces of Trade program sponsored by the U.S. Chamber of Commerce⁸⁵ illustrate the numerous FTA-related export opportunities and benefits.

⁷⁷ Valve manufacturing industry official, interview by USITC staff, Houston, TX, March 1, 2010; IT industry official, interview by USITC staff, Houston, TX, March 1, 2010; home furnishings industry official, interview by USITC staff, February, 23, 2010.

⁷⁸ Girard, “Small Businesses Have Big Stake in Free Trade Debate,” *Business Intelligence*, July 3, 2008.

⁷⁹ Bernard, et al., “Firms in International Trade,” Summer 2007, 113–114.

⁸⁰ OECD, *Removing Barriers to SME Access to International Markets*, OECD 2008, 14; Fliess and Busquets, “The Role of Trade Barriers in SME Internationalisation,” OECD 2006, 4.

⁸¹ TradeMoves LLC., written submission to the USITC, March 24, 2010, 2; remanufacturing industry representative, interview by USITC staff, April 8, 2010; delivery services company representative, interview by USITC staff, February 18, 2010.

⁸² Pharmaceutical industry officials, telephone interviews with USITC staff, February–March 2010; pharmaceutical industry official, interview with USITC staff, Boston, MA, March 3, 2010.

⁸³ Accounting industry official, interview by USITC staff, Houston, TX, March 2, 2010; U.S. Commercial Services official, interview by USITC staff, Houston, TX, March 1, 2010; Massachusetts Export Center official, interview by USITC staff, Boston, MA, March 2, 2010.

⁸⁴ Remanufacturing industry representative, interview by USITC staff, April 9, 2010.

⁸⁵ Faces of Trade is a program developed by TradeRoots. TradeRoots was developed by the U.S. Chamber of Commerce to educate and inform the public about the benefits of international trade. Faces of Trade is dedicated to telling the success stories of small businesses across the country that were able to take advantage of the economic opportunities afforded by trade. U.S. Chamber of Commerce, TradeRoots, “TradeRoots” (accessed March 30, 2010).

According to these SMEs, FTAs reduce tariffs for both exports to other countries and imports of production inputs; they also eliminate trade restrictions, facilitate the passage of goods through customs, ease dispute resolution, and provide intellectual property protection. The SMEs asserted that these changes reduce costs, increase competitiveness, and expand businesses. Many of the businesses in Faces of Trade predicted that opening trade with places like Chile, Colombia, and Peru would significantly increase their sales and growth, citing existing benefits from NAFTA. Higher sales and growth, in turn, would lead not only to an increase in profits but also to an increase in employment and wages.

Appendix table D.2 provides a list of SME-identified opportunities and benefits of FTAs and some other trading arrangements identified to the Commission by SMEs. The list includes tariff reductions, reduction/elimination of trade barriers, increased market access, customs facilitation, trade facilitation, IPR protection, and dispute resolution. By far the most frequently SME-cited opportunities were tariff reduction, reduction/elimination of trade barriers, and trade facilitation. SMEs also cited many benefits associated with increased export opportunities—above all, increased competitiveness, especially with respect to Asian and European competitors; increased export sales; and increased employment. Other often mentioned benefits were expanded business opportunities, opening of new business opportunities, and increased regional opportunities.

Measures of SME Support for U.S. Trading Arrangements

CompTIA, a nonprofit trade association focusing on the information technology (IT) industry, conducted a Web-based survey on exporting opportunities and challenges for SMEs from December 29, 2009, to January 14, 2010.⁸⁶ The survey covered only U.S. IT companies with fewer than 500 employees and with experience selling to international markets. The survey targeted companies in the following industries: IT services firms, manufacturers, professional service firms, and retailers/wholesalers.⁸⁷

According to CompTIA's SME survey, FTAs are important to SMEs and provide numerous benefits. Out of the 393 SMEs that responded to the survey and had sold to international markets, 85 percent rated FTAs as "important" or "very important" for business. Among the various industries surveyed, manufacturers rated the importance of FTAs higher than did other industry segments. CompTIA's analysis of the data indicates that medium-sized exporting companies, experienced exporters (those with more than 10 years' experience), and high-growth exporters are relatively more interested in countries with which the United States has FTAs.⁸⁸ The FTA provisions that SMEs rated as most important were improved access to new markets (31 percent), reduction or elimination of nontariff barriers (25 percent), robust resolution of disputes (23 percent), and reduction or elimination of tariffs (20 percent). Ease of market access was relatively more important for medium-sized firms, with 37 percent responding that this was a principal concern. Dispute settlement was relatively more important for small-sized firms, with 29 percent responding that this was a principal concern. Reduction or elimination of nontariff barriers was relatively more important for micro-sized firms, with 29 percent responding that this was a principal concern.

⁸⁶ CompTIA, "CompTIA" (accessed March 26, 2010); CompTIA, *Small and Medium Size Business Export Insights and Opportunities*, Executive Summary, January 2010.

⁸⁷ A total of 410 firms qualified to participate in the SME section of the study, with an additional 250 firms participating in the portion of the study focusing on reasons for not exporting.

⁸⁸ CompTIA, *Small and Medium Size Business Export Insights and Opportunities*, January 2010, presented at the USTR conference "Jobs on Main Street Customers around the World" Washington, DC, January 21, 2010, slide 27.

The CompTIA survey also illustrates the importance of FTAs and other trading arrangements in SMEs' decisions to enter a new market. For example, 15 to 28 percent of the SME responses (depending on the industry) identified FTAs or BITs with the United States as influential in their decision to enter a particular market. FTAs and BITs were relatively more important for small sized firms. In addition, 7 to 24 percent of respondents (by industry) cited WTO commitments in a relevant industry sector as an influential factor. Medium-sized firms cited WTO commitments relatively more than micro or small sized firms. Finally, 7 to 22 percent of respondents (by industry) cited the existence of IPR protection as an influential factor, with medium-sized firms citing it relatively more often.

CHAPTER 6

POSITIONS OF INTERESTED PARTIES

The Commission held three hearings in relation to its studies on export constraints facing small and medium-sized enterprises (SMEs). The hearings took place in St. Louis, MO (March 10, 2010); Portland, OR (March 12, 2010); and Washington, DC (March 18, 2010). This chapter contains a summary of the views expressed to the Commission either via testimony, written submission, or both, and reflects the principal points made by the particular party. The views summarized are those of the submitting parties and not those of the Commission. Confirming the accuracy of, or otherwise correcting, the information described was beyond the scope of this report.

The parties submitting comments were diverse, including a member of the U.S. Congress; representatives of U.S. state and federal government agencies, foreign governments, U.S. and foreign industry, and domestic and international organizations, including technical and trade associations; and academics. For the full text of hearing testimony, written submissions, and exhibits, see entries associated with investigations no. 332-509 and 332-510 at the Commission's Electronic Docket Information System (<https://edis.usitc.gov/edis3-internal/app>). Note that page numbers given in brackets for exhibits are not precise; because the exhibits volume is not paginated sequentially, the page numbers are those given by the Adobe PDF software.

Donald A. Manzullo, U.S. Representative, 16th District of Illinois¹

In testimony at the Commission's hearing and in a written supplement, Congressman Manzullo said that his district in northern Illinois depends heavily on manufacturing and is experiencing high levels of unemployment (20–30 percent). Citing the important role exporting has played in bringing this region out of past recessions, he said that many successful SMEs in the region continue to maintain significant levels of exports, contributing new jobs to the local economy. He mentioned Barker Rockford, a producer of BMX starting gates, as an example, stating that it has grown from 4 to 13 employees because of exporting.²

In his testimony, Representative Manzullo stated that barriers to SMEs exporting are “all centered around constraints and resources.”³ He listed the primary constraints as (1) limited financial and human resources; (2) bank regulations which decrease the availability of capital; (3) higher local production costs, which SMEs cannot easily avoid through outsourcing; and (4) exchange rate manipulation, which puts SME exporters at a

¹ USITC, hearing transcript, March 18, 2010, 7–17.

² USITC, hearing transcript, March 18, 2010, 8.

³ USITC, hearing transcript, March 18, 2010, 11.

disadvantage. He also said that the “[U.S.] export control system is the single, most significant constraint” on the ability of some SMEs to export.⁴

Representative Manzullo said that ways to promote SME exports include:

- Facilitating trade by zeroing out tariffs; “streamlining trade dispute resolution procedures;” reforming patent documentation and filing; increasing transparency in international taxes, finance, customs procedures, and trade rules; and negotiating reciprocal recognition of technical certificates for professionals.⁵
- Studying the policy implications of allowing U.S. companies to file countervailing duty cases for currency misalignment.
- Supporting export promotion programs that provide SMEs with information about exporting, foreign markets, and new business opportunities, and help them access trade finance options.
- Supporting export control reforms, consistent with national security objectives, to allow more frequent updates of the control list to address emerging technologies and to modernize the electronic export system to help SMEs avoid inadvertent shipping errors.
- Supporting foreign trade zones by “[reducing] the paperwork burden for SMEs to qualify for a Free Trade Zone.”⁶

Export-Import Bank of the United States⁷

In testimony at the Commission’s hearing and in a written supplement, Diane Farrell, speaking for the Export-Import Bank of the United States (Ex-Im Bank), said that the primary mission of the bank is to support U.S. exporters in order to create and sustain U.S. jobs. She said that the bank supported \$4.4 billion in transactions for small businesses in the past year, representing about 88 percent of the Ex-Im Bank’s work, and that the bank has set a goal of doubling its support for small businesses to \$8 billion in the next two years. She indicated that the bank will do this by improving outreach strategies and establishing new partnerships, as well as exploring new product possibilities. Ms. Farrell also stated that SMEs often do not have adequate cash flow or cannot get a loan to fulfill an export sales order; the Ex-Im Bank’s capital guarantee and insurance products enable small businesses to enter new markets, expand their borrowing base, and offer buyers financing, with the bank assuming up to 90 percent of the lending risk.

Ms. Farrell said that almost all private sector export credit agencies (ECAs) operate in the short-term export credit area, while public ECAs operate primarily in the medium- and long-term credit range. She added that small SMEs tend to offer products and services in the short-term area. She noted in her testimony and accompanying PowerPoint presentation that the U.S., Canadian, and Japanese ECAs all offer official short-,

⁴ USITC, hearing transcript, March 18, 2010, 15.

⁵ USITC, hearing transcript, March 18, 2010, 12.

⁶ USITC, hearing transcript, March 18, 2010, 15.

⁷ USITC, hearing transcript, March 18, 2010, 18–30; written testimony, March 24, 2010.

medium- and long-term export credit support, but said that the export credit agencies in the European Union (EU) do not provide any short-term export credit support and also do not offer any special programs for small businesses in the medium-and long-term area. Ms. Farrell stated in her written testimony that EU SMEs are expected to use standard programs they have available for exporters of all sizes.

In her testimony, Ms. Farrell stated that there are two competitive challenges that US ECAs face. As described in the written supplement, the first is that the Ex-Im Bank supports a “made by” versus a “made in” policy, which means that the bank will finance only the U.S. portion of U.S. goods and services, while other ECAs will support up to 100 percent even of exports that contain high levels of foreign content. The second, as stated in the testimony, is that ECAs such as Brazil, India and China, which are not members of the Organisation for Economic Co-operation and Development (OECD) and are thus not bound by the OECD’s rules, are becoming more competitive in the marketplace. Ms. Farrell added that concessional financing or other measures offered by these countries to their exporting firms do not allow U.S. companies to be as competitive.

U.S. Department of Commerce, U.S. Commercial Service, St. Louis⁸

In his testimony, Cory Simek, Director of the U.S. Commercial Service (USCS) office in St. Louis, described the work of the USCS in promoting U.S. exports through its network of offices in the United States and around the world. He noted that SMEs accounted for nearly 85 percent of the “export successes” tallied by the USCS during 2009. He said that one of the largest barriers to SME exports is that many SMEs do not see themselves as part of the global marketplace and do not consider exporting to be an option. He indicated that the USCS works to educate U.S. firms about the process of exporting, together with other federal, state and local government agencies and with private sector partners such as the District Export Councils.

Mr. Simek said that SMEs need help in the following areas to improve their export performance: practical help, conducting market research, developing business plans, marketing and selling internationally, and finding business partners. He noted that resources available to businesses include assistance from USCS trade specialists; the Trade Information Center telephone help line; the www.export.gov Web site; the USCS’s matchmaking service, which matches exporters with foreign business partners; and trade events sponsored by the USCS. He said that the USCS can also intercede with foreign customs or regulatory authorities when necessary, and help firms arrange trade financing with the assistance of the Ex-Im Bank or the Small Business Administration (SBA).⁹

In his testimony, Mr. Simek noted that it was easier for firms that were already exporting to one market to expand into a second market than it was for firms to begin exporting for the first time; “export-ready” firms are those that are producing a viable product, and have already been successful in the domestic market.¹⁰ The difficulty of obtaining U.S. visas is a significant barrier to exports; according to Mr. Simek, foreign importers may be

⁸ USITC, hearing transcript, March 10, 2010, 7–16.

⁹ USITC, hearing transcript, March 12, 2010, 11–16, 80–82.

¹⁰ USITC, hearing transcript, March 12, 2010, 44–45.

discouraged from considering U.S. goods because of the hurdles involved with obtaining visas.¹¹

Aeronautical Repair Station Association¹²

In his testimony, Christian Klein, from the Aeronautical Repair Station Association (ARSA), stated that ARSA is an international trade association based in Alexandria, Virginia, that represents the aviation maintenance and manufacturing industries. He said that according to a study provided by ARSA in its written submission, SMEs account for 85 percent of companies and 21 percent of employment in the industry.¹³ ARSA stated that the United States is a major exporter of aviation maintenance services, producing a \$2.4 billion trade surplus, and that “the European market is by far the most important to U.S. repair stations serving foreign customers.”¹⁴

ARSA asserted that pending legislation for a new, multiyear Federal Aviation Administration (FAA) authorization law would hurt businesses; undermine exports in the industry; dramatically alter FAA’s oversight of foreign repair stations; and contradict already existing bilateral aviation safety agreements. As stated in his written testimony, “If the FAA bill passed by the House becomes law, it will not just become more difficult and expensive for U.S. repair stations to serve foreign customers, it will also become more difficult, and in some cases impossible, for foreign repair stations to work for U.S. air carriers, which means that you’re going to see cost increases for U.S. airlines operating overseas, which is going to put them at a disadvantage against their foreign competitors.”¹⁵ Mr. Klein urged the Commission to do everything possible to ensure that legislators did not impede global trade in the aviation maintenance sector.

AFRAM Corporation¹⁶

In testimony at the Commission’s hearing, Solomon Akinduro from AFRAM Corporation stated that AFRAM is an engineering and construction management company headquartered in St. Louis, with offices in other states and foreign countries. He said that the major barrier his firm faces is in dealing with the governments and businesses of foreign countries, and cited difficulties his firm is having in receiving payments from the governments of Ghana and Nigeria for over \$500,000 in unpaid work. He said that one of AFRAM’s agents in Nigeria falsified documents releasing the ownership of the company to himself and took other illegal actions. He said that his firm would like to see how the U.S. government might help companies deal with obstacles like these in working with foreign companies and governments.

¹¹ USITC, hearing transcript, March 12, 2010, 54–55.

¹² USITC, hearing transcript, March 18, 2010, 184–193.

¹³ In his testimony submitted for the record, Mr. Klein noted that “For purposes of the study, AeroStrategy defined SME as companies with less than \$6.5 million in revenue or fewer than 50 employees.” Klein, written testimony to the USITC, March 18, 2010, 2.

¹⁴ ARSA, written testimony submitted to the USITC, March 18, 2010, 3.

¹⁵ USITC, hearing transcript, March 18, 2010, 188.

¹⁶ USITC, hearing transcript, March 10, 2010, 34–38.

Air Tractor, Inc.¹⁷

In a written submission, David Ickert, of Air Tractor, Inc. (AT), stated that AT is a small business located in Olney, Texas, that manufactures agricultural and forestry fire-fighting airplanes. According to the submission, the company exported 49 percent of the aircraft it sold in 2009, up from 10 percent about 10–15 years earlier. Ickert stated that a lack of resources is the most significant constraint to exports by U.S. SMEs, citing the following specific constraints:¹⁸

- “Market research and customer identification (including dealers/ distributors) in foreign markets;
- Identifying and then solving legal and bureaucratic regimes and regulations required in each foreign market;
- Financing—for internal working capital needs and for the end user foreign customer;
- Protection of intellectual property rights;
- Complex and unforgiving U.S. export control laws and regulations; and
- Competition and barriers imposed/introduced by foreign governments.”

Ickert stated that AT was able to overcome some of these constraints by identifying and using a commercial bank that embraced international trade support, as well as using the knowledge and networking opportunities provided by trade associations focusing on SMEs. He added, however, that most commercial banks have not promoted international trade as a line of business; many have minimum size transaction limits that SMEs cannot meet; and, in regard to trade associations, there are too few and many SMEs are unaware of them. He also stated that the biggest benefits of increased export opportunities have been increased market size, leading to increased sales and more jobs in Olney, TX, and AT’s ability to better withstand domestic economic fluctuations.

Buhler Quality Yarns Corp.¹⁹

In a written submission, Werner Bieri, president & CEO, Buhler Quality Yarns Corp., stated that the company is engaged in the manufacturing, sales marketing, and distribution of spun yarns, with 145 full-time employees and annual sales of about \$25 million. According to the submission, the most significant constraints facing the company are nontariff barriers such as import licensing, excess document formalities and changing requirements, high import duties, export rebates, and lack of export financing. To overcome these difficulties, Mr. Bieri states that the company works with local agents and distributors and builds strong and lasting relationships with export customers.

The submission cited benefits from free trade agreements (FTAs) and exporting. Mr. Bieri stated that out of the 50 percent of products that his company exports, 40 percent

¹⁷ Ickert, written submission to the USITC, March 25, 2010.

¹⁸ Ickert, written submission to the USITC, March 25, 2010, 2. Bullet points are in the original.

¹⁹ Bieri, written submission to the USITC, February 9, 2010.

are to countries with which the United States has FTAs or other trade agreements, and that the Central American Free Trade Agreement (CAFTA) and the Singapore FTA have been the most beneficial. In addition, he reported that exporting increases efficiency by allowing the company to manufacture larger production runs and encourages innovation by challenging it to contend with international competition. Mr. Bieri also listed the differences between exporting SMEs in Europe and the United States. According to Mr. Bieri, the positive differences for his company, as compared to European SMEs, are faster reaction time because of less regulated labor markets, generally lower manufacturing costs, and more interconnection in the supply chain in sales and marketing. The submission also states the negative differences for U.S. SMEs: no annual overtime rules; a lack of skilled workforce in lower management, maintenance and technical staff; and problems with the availability and cost of credit.

CID Bio-Science, Inc.²⁰

In his testimony, Leonard Felix, president of CID Bio-Science Inc., stated that his company has benefitted in several ways from its three-year relationship with the SBA, including access to business advice, market research, and other services; an SBA loan from a small bank, which helped the company weather the economic downturn; and the waiver of the SBA loan fees through the federal stimulus program. He added that the State of Washington's shared work program, which allowed the company's production staff to work four days a week and draw unemployment on the fifth day, also helped the company avoid further layoffs during the recession. He said that exports account for about 80 percent of the company's sales and that it is "really not viable without the exports."²¹

Mr. Felix stated that his company, which sells scientific instruments for plant physiology researchers, generally has focused on markets with many universities and a national interest in agricultural sciences or ecology (e.g., China and India). He said that once they identified Brazil as a potential market, the USCS assisted CID Bio-Science Inc. in entering that market, and the company now plans on working with the Commercial Service to enter Mexico.

Mr. Felix said that the company generally works with distributor networks in foreign markets, though it often has arrangements in which it will sell directly to universities or government agencies and then pays the distributor a commission rather than having the distributor resell their products; working with public-sector organizations and academics often allows for easier clearance of customs. He stated that the amount of paperwork required to operate in different countries varies greatly, citing Argentina, Brazil, India, and Pakistan as countries with difficult customs procedures versus Korea and Japan, where procedures are easier. He added that the expense of travel constrains the company's growth. Mr. Felix also pointed to the U.S. government's export controls as a problem area, stating that they are complex and difficult to navigate and that information on compliance with export controls is not centralized.

²⁰ USITC, hearing transcript, March 12, 2010, 159–205.

²¹ USITC, hearing transcript, March 12, 2010, 166.

The Coalition for Security and Competitiveness (CSC)²²

In a written submission, the Coalition for Security and Competitiveness (CSC) cited five general themes that should guide reform of the U.S. export control system:²³

- Draw clear lines of agency responsibility.
- Control lists should be revised and reduced.
- Complete the transition to an end user-based system.
- Enhance cooperation with allies.
- Enhance cooperation with the business community.

The nine follow-up recommendations the CSC provides in the submission to expand upon the five themes involve a diverse set of efforts, ranging from policy actions to improved outreach, particularly to SMEs. For example, in regard to outreach, CSC suggests establishing an interagency task force to rapidly determine ways to make government agencies more accessible for SMEs, as well as providing a staff to counsel SME exporters. CSC states that SMEs are “disproportionately disadvantaged by the current export control system,” in that they do not have sufficient staff to ensure compliance; they lack access to “. . . agencies with licensing authority”; processing times are too long; and the process lacks transparency.²⁴

Dixie Chemical Company²⁵

This written submission notes that Dixie Chemical Co. is a privately held specialty chemical manufacturer located in Pasadena, Texas, with about 200 employees. Dixie Chemical states that it faces four main constraints to exporting: (1) name recognition; (2) transactions in foreign currencies; (3) collecting foreign receivables; and (4) logistics, such as delivery times and transportation costs for small shipments.

Strategies the company uses to overcome export constraints in the EU and Asia include entering into alliances for logistics, billing, and collecting receivables; using agents/distributors in the EU and Asia to represent Dixie Chemical (e.g., by stocking products overseas and representing the company at key accounts); and leasing a bulk storage tank for major products.

Dixie Chemical also cites two barriers that affect SMEs disproportionately: reluctance among Japanese companies to consider or purchase U.S. products; and the impact of the EU’s new regulation addressing chemicals—Registration, Evaluation, Authorisation and Restriction of Chemical substances (REACH)—on U.S. exports to Europe. Dixie Chemical generally exports directly from its U.S. operations rather than build foreign operations. One example of indirect exporting for the company involves its sales of paper

²² Coalition for Security and Competitiveness, written submission to the USITC, March 26, 2010.

²³ Excerpted from Coalition for Security and Competitiveness, written submission to the USITC, March 26, 2010.

²⁴ Coalition for Security and Competitiveness, written submission to the USITC, March 26, 2010, 3.

²⁵ Dixie Chemical Co., written submission to the USITC (outline of testimony), January 28, 2010.

chemicals to paper service companies, which then export the products to customers worldwide.

Dutchman Global²⁶

According to a written submission filed by Dan Vander Meer, founder and CEO of Dutchman Global (a small exporter of heavy machinery), small exporters have found it difficult to access certain types of export credit during 2008 and 2009 (see box 2.2 for a discussion of the impact of the 2008-09 global recession on the availability of trade financing). He identified the lack of communication between small exporters, the Ex-Im Bank, and other government entities, such as the U.S. Commercial Service and the SBA, as a specific issue constraining small exporters. Additionally, he indicated that the Ex-Im Bank's approval process was slow, and that Ex-Im Bank was perceived to favor large exporters over small ones.

Electrical Geodesics, Inc.²⁷

In her testimony, Dr. Ann Bunnenberg, president of Electrical Geodesics Inc., discussed some of the exporting challenges faced by her company, including long sales cycles, heavy regulation, and the emergence of complex issues as countries attempt to address rising health care costs. Dr. Bunnenberg said that small companies faced difficulties in accessing export financing; for example, small banks may refuse to accept international receivables as collateral or, more generally, may not have the necessary level of expertise or comfort with international transactions, while large banks may be uninterested in small international sales. Dr. Bunnenberg also stated that trade shows were useful and effective for small businesses seeking international customers, but added that the high cost of attending international trade shows and the difficulties in accessing visas (both for sending company representatives abroad and for bringing customers to the United States) restricted Electrical Geodesics Inc.'s ability to export. Dr. Bunnenberg also stated that global regulations on the medical device industry are in some cases becoming more complex. She added that Electrical Geodesics Inc. is now starting to work more with the Ex-Im Bank.

Electron Energy Corporation²⁸

Mr. Peter C. Dent addressed two topics during his testimony: (1) the limited availability of rare earth metals and (2) export controls. He said that Electron Energy Corp. produces rare earth magnets and that about 70 percent of Electron Energy's products are used to manufacture magnets and magnet assemblies for military and space applications. He added that rare earth metals are also used in a variety of other applications, including "green technologies." Mr. Dent stated that China now supplies almost 100 percent of all rare earth metals and oxides, leaving the United States "dangerously vulnerable." He cited several recent Chinese government actions regarding rare earth metals: (1) it established production caps (thereby limiting the amount exported); (2) it established

²⁶ Vander Meer, written submission to the USITC, January 26, 2010.

²⁷ USITC, hearing transcript, March 12, 2010, 45-136.

²⁸ USITC, hearing transcript, March 18, 2010.

export quotas; and (3) as of January 1, 2008, it increased export duties on the products from 10 percent to 25 percent. He added that industry experts reportedly have projected that Chinese consumption of rare earth elements would soon exceed production; this is expected to result in tight world supplies and higher prices and to put consumers at a “structurally competitive disadvantage.”²⁹ He also stated that China has offered more access to rare earth elements to companies who agree to move their manufacturing and/or development to China.

With reference to U.S. government export controls, Mr. Dent stated that although the company agrees they are necessary, “. . . export controls as currently administrated have negative consequences on our ability to export due to inflexibility in the system and outdated protocols.”³⁰ He said that two U.K. customers refused to purchase Electron Energy’s product because of export controls (both reportedly stated that they had stopped doing business with U.S. companies because of export controls, with one citing contractual agreements that prohibited use of U.S. products for the same reason). He also stated that one of those customers eventually bought Chinese product(s) instead. Mr. Dent said that compliance with export controls has resulted in his company losing 50 percent of its military exports, reducing company revenues by 5 percent, and that one customer told him that the customer’s company could triple their exports if it were not for “export control implications.”³¹ Moreover, Mr. Dent said that some European firms now advertise their systems as being “ITAR free, which can be considered a euphemism for no U.S. parts content,” prompting suppliers to find alternative sources for the system components they provide.³²

Mr. Dent said that his company supports the recommendations of the National Association of Manufacturers and the Coalition for Security Competitiveness regarding export controls (he provided a copy of the Coalition’s recommendations as part of his post-hearing brief). When asked a question later in the hearing as to how he would change export controls, he suggested that the six agencies involved work together to provide less conflicting advice, and he also suggested that the list of controlled products be upgraded more often and incorporate more high-technology products. In response to a question about how other countries administer export controls, he mentioned that different countries interpret the Wassenaar Agreement differently. He also mentioned that innovation is key to new market participation in exports.

In addition, he said that his company supports the recommendations of the U.S. Magnet Materials Association, a coalition of magnet suppliers, regarding rare earths. He cited several of the association’s recommendations in his testimony, including the creation of a high-level interagency working group. When asked how long it would take to start up a working mine, he said that it would be about 7–10 years, adding that Molycorp Minerals, the U.S. company that stopped mining in 2002—reportedly because of oversupply from the Chinese—is currently looking for about \$400 million in funding to restart operations. Mr. Dent also stated that different geological areas contain different mixtures and amounts of individual rare earths.

²⁹ USITC, hearing transcript, March 18, 2010, 52.

³⁰ USITC, hearing transcript, March 18, 2010, 53.

³¹ USITC, hearing transcript, March 18, 2010, 54.

³² Ibid.

Fanwood Chemical, Inc.³³

Mr. V.M. (Jim) DeLisi stated in his written submission that several export issues, including the undervaluation of Chinese currency, present significant challenges to U.S. chemical SMEs that export. He stated, for example, that competing with Chinese products in third-country markets is difficult because price is a major consideration for these buyers. As chemical plants are profitable only at high capacity utilization rates, he stated that exports are considered “the icing on the cake” in that they often allow chemical companies to operate plants at full capacity.³⁴ However, he added that “in many instances, Chinese ‘prices’ take away just enough incentive for these exports that they are not profitable and therefore not pursued.”³⁵

Mr. DeLisi also stated that U.S. companies are at a disadvantage when foreign competitors can enter markets duty-free as beneficiaries of preference programs, such as regional FTAs between other countries/regions in which the United States is not a participant. He stated that successful completion of the Doha Round chemical sectoral initiative would eliminate such trade imbalances but that, until that occurs, it is very important for the United States to continue to negotiate FTAs with its trading partners. Mr. DeLisi said that a U.S.-Korea FTA, for example, would be important for U.S. chemical SMEs that export, especially given the EU’s FTA with Korea. He added that the Trans-Pacific Partnership FTA could also be very significant for U.S. chemical exporters, especially if it is eventually expanded to include Japan.

He concluded by stating that a strong U.S. manufacturing base in the United States is essential, particularly as it provides a vehicle for SMEs to export to and through multinational firms (e.g., indirect exports). Therefore, he said, policies that help large companies export will also help SMEs, adding that for this reason, “internationally competitive tax, employment, environmental, and regulatory policies” are needed in the United States.³⁶

Foreign Trade Association³⁷

This written submission states that the Foreign Trade Association (FTA), founded in 1919, is the oldest international trade association in Southern California and that its membership includes all of the various segments involved in international trade in Southern California. The submission states that the association’s members, including large and small companies, reported several areas in which they were having the most difficulty exporting: education, financing, U.S. and foreign regulatory hurdles, and the “extraterritoriality of U.S. laws and regulations.”³⁸ FTA then provides more specific comments for each. In regard to education, for example, it is states that many companies are not familiar with the basics of exporting. Although FTA applauds the establishment of the www.export.gov Web site, it asks that the structure of the information provided

³³ DeLisi, written submission to the USITC, January 15, 2010.

³⁴ Ibid.

³⁵ Ibid.

³⁶ Ibid.

³⁷ De Atouguia, written submission the USITC, March 24, 2010.

³⁸ De Atouguia, written submission the USITC, March 24, 2010, 1.

there be reorganized to make it more user-friendly. It also suggests that private sector input across agencies be facilitated (perhaps in the form of an advisory group that bridges various agencies) to help coordination among agencies.

FTA's recommendations in regard to financing, particularly for smaller companies, are to continue expanding available funding; push forward with negotiations to change international rules for letters of credit to facilitate electronic transfer of data (e.g., bills of lading and air waybills); increase federal oversight of banks that refuse to lend; and make available comprehensive, "seamless" financing packages that include a variety of lenders and give priority to new initiatives.

FTA's recommendations addressing export regulations include the consolidation of all export data into one website, including information about export controls and lists of domestic and foreign parties with whom U.S. companies cannot do business. The FTA also recommends making information more readily available about issues such as embargoes, sanitary and phytosanitary certificates, and the Foreign Corrupt Practices Act. FTA also suggests leveling the playing field regarding nontariff barriers such as numerous and sometimes conflicting global regulatory requirements.

Global Products International, Inc.³⁹

In her testimony, Rebecca Herwick of Global Products International (GPI), Inc., stated that as a licensee for Harley-Davidson, the company designs, manufactures and distributes custom apparel, headwear, giftware, and collectible items. Ms. Herwick stated that GPI currently exports to 69 countries, with \$2.3 million in exports in 2009; the company's export difficulties, she said, are related to the significant paperwork required to export large numbers of low-valued goods. Ms. Herwick lists the following barriers to GPI's exports: differing standards for product development and quality control within different countries; the need to get marketing knowledge and information from different countries; logistics and shipping; financial resources; legal fees; language barriers; and understanding varying exporting procedures in different countries. Ms. Herwick states that the company is interested in forming a small-business organization in Missouri in order to pool resources and be financially capable to participate in the U.S. Business Council and foreign business councils, as well as share knowledge, strategies, and legal advice.

The Hardwood Federation and American Hardwood Export Council⁴⁰

In a written submission and in testimony before the Commission, Jameson French, Chairman of the Board of the Hardwood Federation (HF), stated that HF is the largest public policy trade association that focuses specifically on federal policy issues impacting the hardwood industry. Its members are engaged in manufacturing, wholesaling, and distributing North American hardwood lumber, veneer, plywood, flooring, and related

³⁹ USITC, hearing transcript, March 10, 2010, 182–192.

⁴⁰ USITC, hearing transcript, March 18, 2010; French, written submission to the USITC, February 9, 2010.

products. A past Chairman of the American Hardwood Export Council (AHEC), Mr. French stated that AHEC is an association of hardwood producers engaged in the export of American-made hardwood products.

Mr. French stated that the U.S. hardwood industry is composed almost entirely of small businesses and that industry increasingly relies on export markets, especially since the recent economic downturn. Mr. French identified four specific challenges that he said are affecting U.S. hardwood exporters: (1) foreign suppliers often compete under different rules and conditions (e.g., value-added duties, currency manipulation, labor laws, government subsidies, illegal logging, and energy policies); (2) fluctuating, unpredictable freight charges and the unreliability of U.S. ports make exporting a very difficult and risky business for SMEs; (3) the Animal and Plant Health Inspection Service (APHIS) of the U.S. Department of Agriculture (USDA) announced fee increases of 112 percent by 2012 for phytosanitary certification, raising operating costs significantly and potentially harming the price-competitiveness of SMEs; (4) bureaucracy, both at home and abroad, delays product shipments and increases costs, making it difficult for business to compete and meet customer requirements. Bureaucracy can be especially difficult for SMEs, who are often not prepared to deal with the hardships, byzantine regulations, and sometimes exorbitant and unexplainable fees they encounter, according to Mr. French.

Mr. French stated that there are three specific reasons—domestic advocacy, international promotion, and self-regulation—that the U.S. hardwood industry is able to successfully export:

- There is strong support and high participation rates in the industry's trade associations, which are able to coordinate activities, such as government lobbying, for the benefit of all producers.
- USDA Foreign Agriculture Service (FAS) Market Access Program (MAP) funding through AHEC gives the U.S. hardwood industry a sharp competitive edge in meeting the growing worldwide demand for hardwood products.
- The National Hardwood Lumber Association created a set of voluntary rules for the sale and purchase of North American hardwood lumber, which have also been adopted for many foreign species of hardwood. These rules allow for the exchange of lumber by specification and eliminate the need for inspection before purchase making pre-delivery payment possible, which is particularly important for exports where delivery may not occur for several weeks to months.

HBO Latin America Corporation⁴¹

Testimony about a new Argentinean law and other topics was provided by Miguel Angel Oliva, vice president for public relations and corporate affairs, HBO Latin America Corp., and Andres A. Castrillon, Esquire, Hughes Hubbard & Reed LLP, on behalf of HBO Latin America Corp. According to Mr. Oliva and Mr. Castrillon, Argentina's October 10, 2009, Media Law (Media Law) violates the U.S.-Argentina Bilateral Investment Treaty,

⁴¹ USITC, hearing transcript, March 18, 2010, 197–199 and 199–205; Pierce and Mroczka, written submission to the USITC.

the Trade-Related Investment Measures agreement of the World Trade Organization (WTO), and the 1994 General Agreement on Tariffs and Trade.

Mr. Oliva and Mr. Castrillon stated that the Media Law arbitrarily discriminates between national and foreign programmers, placing foreign companies, such as HBO Latin America, at a competitive disadvantage. According to a written submission by Kenneth J. Pierce and Victor S. Mroczka of HBO Latin America Corp., article 65 of the Media Law requires cable operators to carry a minimum amount of national and Mercosur (Southern Cone Common Market) programming; article 67 of the Media Law establishes a screen quota for Argentine movies, requiring foreign programmers (but not national programmers) whose programming consists of more than 50 percent fictional content to use 0.5 percent of their annual revenue to acquire local Argentine films; article 83 of the Media Law makes expenditures on advertising carried by foreign signals ineligible for the income tax deduction available to advertising carried on national signals in the Argentine income tax law; article 94 of the Media Law subjects advertising or promotions to a new tax that discriminates against foreign programmers; and article 96 applies a 5 percent tax rate to the gross advertising expenditures of foreign programmers, while applying only a 3 percent tax rate to domestic programmers. According to Mr. Oliva and Mr. Castrillon, HBO Latin America Corp. has been unable to engage the Argentine government in negotiations and does not believe that it can enforce arbitration decisions in Argentina. Consequently, HBO Latin America Corp. requests the direct involvement of the U.S. government, as it did in a similar situation in the Bahamas.

Mr. Oliva also stated that it is difficult and takes too long to obtain Brazilian visas for travel from the United States and to obtain U.S. visas for travel from Brazil and Argentina.

Herkules Equipment Corporation⁴²

In a written submission to the Commission, Todd Bacon, CEO of Herkules Equipment Corporation, stated that Herkules is a small manufacturing company based in Michigan that builds high-tech equipment to assist assembly line workers who assemble vehicles. Mr. Bacon identified price points as the primary reason many small U.S. manufacturing firms have been unable to effectively compete against foreign manufacturers, such as those from China. Mr. Bacon stated that despite adopting the latest technologies through investment in research and development, his manufacturing company has continued to face pricing challenges from foreign manufacturers due to their ability to effectively compete on wages, overhead, and comparable technologies.

The Hosiery Association⁴³

According to a written submission filed by Sally Kay, president & CEO, the Hosiery Association, the legwear business is the healthiest segment within the overall U.S. apparel sector of textiles because of its “ability to leverage technology,” its vertical integration in manufacturing, and the speed with which it delivers products to market.⁴⁴

⁴² Bacon, written submission to the USITC, March, 1, 2010.

⁴³ Kay, written submissions to the USITC, January 28 and February 19, 2010.

⁴⁴ Kay, written submission to the USITC, February 19, 2010.

According to Ms. Kay, there are 25,000 employees in the legwear business value chain, located in 21 states. Ms. Kay stated that 90 percent of the Hosiery Association's membership base consists of SMEs.

Ms. Kay said that 95 percent of the legwear market is outside the United States. She added, however, that while sock exports have totaled approximately \$20 million in the past three years (to Singapore, Japan, Thailand, Qatar, Kuwait, Panama, Norway, Germany, Bermuda, Bahamas, and Denmark), few SMEs in the legwear industry have exported successfully. According to Ms. Kay, one of the most significant challenges facing the legwear industry is the limited knowledge of the industry within the U.S. government. Ms. Kay states that the government could be more effective in communicating regularly with the legwear industry, adding that “. . . federal officials who have taken the time to tour a hosiery facility, and engage in consistent dialogue with the company leadership have a far better understanding and appreciation for what actually transpires in the industry.”⁴⁵

Ms. Kay said that exporting is difficult because the export documentation needed is not standardized from country to country, and because countries lack transparency and predictability. Ms. Kay stated that another reason exports are limited is that foreign regulations (environment, taxes, healthcare, labor, etc.) vary significantly. Ms. Kay also stated that it is difficult for U.S. SMEs to compete with producers from countries that have preferential access to markets, that have lower-cost production, or that have promotional activities that are heavily subsidized by their governments.

Ms. Kay cited lack of financing as a challenge to many SMEs in the legwear sector, adding that SMEs have not had a positive experience with the Ex-Im Bank. Ms. Kay stated that more transparency and predictability would lead to increased exports and create more U.S. jobs.

Hydra-Power Systems, Inc.⁴⁶

According to testimony provided by Peter Herder, Outside Technical Sales, Hydra-Power Systems, Inc., his company has diversified into many markets, including the hydroelectric, nuclear power, steam turbine generation, mobile equipment, offshore and sub-sea oil and gas, and military markets. According to Mr. Herder, the International Traffic and Arms Regulation (ITAR) has been a barrier to exports.

Mr. Herder stated that the ITAR process is overwhelming for SMEs, many of which either have never heard of the regulation or do not know how to comply with it. Mr. Herder estimated that Hydra-Power Systems has spent \$20,000 researching how to stay in compliance with ITAR. Mr. Herder added that while it typically takes Hydra-Power Systems six weeks to produce its products, the ITAR process takes more than six months (in part due to the company's lack of understanding of ITAR procedures). Mr. Herder went on to say that there are too many layers of government regulation, and that the review process could be streamlined by permitting simultaneous agency review of ITAR applications, rather than the sequential review that currently exists. Mr. Herder also

⁴⁵ Kay, written submission to the USITC, February 19, 2010.

⁴⁶ USITC, hearing transcript, March 12, 2010, 155–161.

contended that compliance with ITAR is difficult because, while a product may stay the same, ITAR classifications may change.

Mr. Herder also noted that travel expenses to such locations as Brazil, the North Atlantic, Australia, and Asia can be a barrier to exporting. According to Mr. Herder, many Middle Eastern and European countries actively promote SMEs. Mr. Herder also stated that many countries, such as Scandinavia, have set up standards that can act as barriers to imports from other countries in that the standards can force expensive redesigns for products.

Independent Film and Television Alliance⁴⁷

The Independent Film and Television Alliance said in its submission that it represents about 150 firms, the majority of which are SMEs and U.S.-based exporters. The IFTA also stated that copyright piracy constrained the export activity of their members, noting that lawsuits in response to acts of piracy can be expensive and that the resulting judgments can be difficult to enforce. IFTA stated that its members encounter burdensome regulations in other countries, such as local dubbing requirements (which increase expenses) and screen quota requirements (which reduce export opportunities). IFTA cited the example of China, where distribution opportunities are limited by state-licensed entities responsible for importing foreign movies, and where censorship rules are nontransparent. The association also cited the example of India, where U.S. exporters face foreign ownership restrictions and burdensome customs regulations. The testimony suggests that IFTA members could export more if they could share the costs of attending international film festivals, or if the U.S. had bilateral co-production agreements with other countries.

According to the testimony, one export strategy adopted by IFTA members is making agreements with international distributors in advance of production, which builds networks of local representatives. IFTA stated that its members also share financial and artistic resources through co-production agreements. Additionally, IFTA noted that SMEs in this industry rely on trade associations to provide advocacy, collect non-contractual royalties, and protect against piracy through copyright verification programs.

Media Wizard, Inc.⁴⁸

According to testimony provided by Chris Albert, president and chief executive officer, Media Wizard, Inc., has developed encryption software that prevents data from being downloaded or compromised. According to Mr. Albert, large U.S. companies deny the ability of small companies to introduce and market their product through unfair rules of trade and licensing. According to Mr. Albert, the top three domestic barriers facing Media Wizard are (1) licensing fees imposed by large companies, (2) the difficulty experienced by software SMEs located outside of California in attracting venture capital, and (3) the “ego” of large companies, which prevent large companies from working with small companies that have found solutions to problems that larger companies could not

⁴⁷ Independent Film and Television Alliance, written submission to the USITC, March 26, 2010.

⁴⁸ USITC, hearing transcript, March 10, 2010, 37–43, 90–147 passim; Albert, exhibits/testimony, [32–49].

solve themselves. Media Wizard also notes that it has found it difficult to establish contacts with foreign government procurement officials, such as in France and in Germany, and believes the U.S. government should be more helpful in establishing such contacts for SMEs. According to Mr. Albert, these barriers have resulted in lost domestic jobs and billions of dollars of lost revenue for U.S. SMEs.

Medical, Laboratory & Technology Consultants⁴⁹

In her testimony, Maria Hardy, chief executive officer of the Medical, Laboratory & Technology Consultants, discussed the most significant constraints that U.S. SMEs face in exporting, highlighting the considerable role that fear, lack of resources, and difficulties in raising capital play in discouraging SMEs from exporting. Further, according to Ms. Hardy, larger companies are able to rely on their “well-known name to obtain their contracts,” which often comes at the expense of SMEs who “are capable of taking these contracts . . . but look at the competition [from the larger companies] and won’t even apply.”⁵⁰

One major obstacle, according to Ms. Hardy, is fear, including fear of exporting (“Many people are struggling so badly on the homefront that they would never dream of expanding to the global market”) and fear of acquiring debt by taking on loans (“many will simply allow the business to close rather than apply for a line of credit in the current economy”).⁵¹ She suggested that a greater availability of grants might address this issue of inadequate financing for SMEs.

Ms. Hardy advised SMEs to first address their fears of exporting and recommended that they avail themselves of government resources such as “Export University 101,” offered by the USCS, and to acquire the International Marketing Plan workbook—a “priceless resource to implement an international trade plan” that also identifies strengths and weaknesses in an SME’s sales strategy.⁵²

Ms. Hardy also suggested that SMEs might benefit from a mentoring or a certification program that would provide SMEs with a “standardized level of education and preparation” that could help these companies develop the confidence and knowledge necessary to enter new markets.⁵³

The Merry Hempsters, Inc.⁵⁴

According to a written submission filed by Gerry Shapiro of the Merry Hempsters, Inc., the Portland U.S. Export Assistance Center and the Oregon Economic and Community Development Department have assisted in profitable relationships overseas. He remarked that both entities have been very effective in presenting the Merry Hempsters’ brands to potential customers abroad, and have assisted the company in reaching out to

⁴⁹ USITC, hearing transcript, March 18, 2010, 197–205.

⁵⁰ USITC, hearing transcript, March 18, 2010, 199–200.

⁵¹ USITC, hearing transcript, March 18, 2010, 199, 203.

⁵² USITC, hearing transcript, March 18, 2010, 202.

⁵³ USITC, hearing transcript, March 18, 2010, 203.

⁵⁴ Shapiro, written submission to the USITC, March 26, 2010.

potential foreign customers. According to their Web site, the company makes lip and skin care products using hemp seed oil.⁵⁵

Mr. Shapiro stated that the Korean government has recently adopted new organic rules so strict that USDA-certified companies would be out of compliance if entering Korea after January 1, 2010. Mr. Shapiro added that he finds these new regulations to be threatening because even with the extra year given by the Korean government, the Merry Hempsters will not be in compliance. Mr. Shapiro requests that the U.S. government work to find a reasonable compromise before the 2011 deadline.

Mr. Shapiro also stated that Canadian THC⁵⁶ regulations severely restrict the Merry Hempsters' ability to export and have on occasion caused shipments to be returned. He noted that Canadian regulations require finished products entering Canada that contain hemp oil to have labels in English and French stating that the raw material of the finished product contains 10 micrograms per gram THC or less. Also, according to Mr. Shapiro, Canadian regulations require that the product be tested at a U.S. Drug Enforcement Agency-approved lab, and that each batch produced must be tested in order to have a credible reference to the THC content. Mr. Shapiro stated that each test costs \$250–\$350. On the other hand, Mr. Shapiro expressed his satisfaction with the Madrid protocol, and said that he strongly encourages the U.S. Department of Commerce (USDOC) and any other relevant agency to expand the number of participating countries.

MidAmerica St. Louis Airport⁵⁷

In his testimony, Tim Cantwell, Director of the MidAmerica St. Louis Airport, stated that one of the airport's goals is to increase SME air cargo business and to expand SMEs' international business. He emphasized that international air cargo expansion depends on a balance of commerce and compliance, but that four federally mandated compliance factors specifically inhibit air cargo exports from SMEs out of the MidAmerica St. Louis airport.

He said that the first factor is the requirement for ports of entry to be "User Fee" airports, thereby putting the burden on the businesses using the facility to supply the operating capital to finance its operations.⁵⁸ He said that this creates a pricing disadvantage for the airport; causes the airport to not have certain capabilities; and, since User Fee airports do not have electronic remote filing, landing clearances have to be requested especially far in advance. The second factor, Mr. Cantwell said, is that the new transfer of authority between different compliance agencies has increased personnel requirements. He said that the third factor was that the technology used by agencies during compliance procedures is out-dated, limits efficiency, and increases costs. He added that the fourth factor is that the process to import or export a product that has not previously been shipped through the airport is overly burdensome.

⁵⁵ Merry Hempster Web site," http://merryhempsters.com/our_philosophy.html (accessed June 26, 2010).

⁵⁶ Tetrahydrocannabinol (THC) is a psychoactive component of the *Cannabis sativa* plant.

⁵⁷ USITC, hearing transcript, March 10, 2010.

⁵⁸ USITC, hearing transcript, March 10, 2010, 20–21.

Midwest-China Hub Commission⁵⁹

The Midwest China Hub Commission (MCHC) is a collaboration between government officials and private business associates to establish an expanded economic partnership with China. The Commission proposes that the St. Louis region become China's primary gateway into the American heartland through dedicated cargo flights that connect the Midwest with China and through the development of a strong economic hub of Chinese-American business partnerships.

The MCHC stated in its written submission that it supports efforts to expand the capabilities of SMEs to penetrate China and other global markets. The MCHC asserted that it has encouraged St. Louis businesses to think globally and investigate export opportunities.

National Association of Manufacturers (NAM)⁶⁰

In her written submission on behalf of NAM, Patricia Mears, Director of International Commercial Affairs, stated that it is the nation's largest industrial trade association, with members in all 50 states, and that thousands of its members are SME exporters. She said that for many of these companies, their exports are "accidental"—i.e., generated by chance through a customer request, rather than through development of expertise in exporting. According to Ms. Mears, two conditions favoring SME exports include FTAs and the value of the U.S. dollar compared with other currencies. The issues for SMEs that export, as identified by Ms. Mears, include finding markets, standards and regulatory issues, export controls, trade facilitation, and finance.

She stated that SMEs generally do not have staff dedicated to understanding foreign markets for their products and finding distributors or agents overseas, so assistance in those areas would help SMEs increase their exports. She added that strategies that have helped SMEs include developing Web sites and training sales personnel in multiple languages; asking colleagues in companies that produce compatible, but not competing products for recommended foreign distributors; and working with state and federal government agencies involved in export promotion. According to Ms. Mears, many SMEs do not know about such government programs, and would be more likely to use them if they were provided free of charge.

Ms. Mears also stated that the volume of goods sold by SMEs overseas usually did not justify the costs of regulatory compliance in many export markets, particularly in Europe. She also called for the modernization of the U.S. export control system, which creates significant compliance costs for U.S. SME exporters. She cited other barriers to SME exports, including the high costs of shipping and the finding that Ex-Im Bank financing was of limited utility for small companies, since most lenders are unwilling to process the paperwork required for smaller-value transactions. Overall, according to Ms. Mears,

⁵⁹ Midwest-China Hub Commission, written submission to the USITC, March 26, 2010.

⁶⁰ Mears, written submission to the USITC, March 25, 2010.

small companies “face many of the same export challenges as large companies, but the scale of the problem is greater due to resource constraints.”⁶¹

National Institute for World Trade (NIWT)⁶²

In his testimony, Spencer Ross of the NIWT stated that he established the National Institute for World Trade as an international consulting organization. He also has experience working for several multinational corporations and chaired the New York District Export Council for 10 years.

Mr. Ross stated that the United States cannot tolerate the loss of the country’s manufacturing base and still maintain its quality of life, and that the United States should take retaliatory steps against IPR violations by China. In many cases, he said, U.S. intellectual property (IP) is lost to other countries through the licensing process, which many SMEs do not understand very well, and so SMEs may find that they lose control over their IP to foreign manufacturers.⁶³ In response, he suggested, the U.S. government should develop a program that would consider an SME’s IP as a national treasure, which should optimally be transferred to another U.S. company, rather than transferred overseas through a license to a foreign manufacturer. He mentioned, for example, that this could be accomplished by the USDOC developing a matchmaking service between U.S. companies before a foreign licensing agreement could be completed, potentially delaying it long enough that U.S. firms could consider U.S. production rather than foreign licensing. He also suggested that the United States should undertake “re-development initiatives” similar to those in place in many developing countries, to recapture lost and newly emerging industries.⁶⁴

As he noted in his testimony, another important way to increase exports is to increase language skills in the United States, particularly the languages of countries whose consumer markets are rapidly increasing. U.S. exporters can no longer depend on the rest of the world speaking English.⁶⁵ Mr. Ross cited the languages of the BRIC nations (Portuguese, Russian, Hindi, and Mandarin Chinese), and Arabic, Korean, and Japanese, as particularly important. These languages should be taught in U.S. schools, he argues, beginning at the elementary school level. He cited three other actions that would increase U.S. SME exports: accelerating the foreign visa process for visits to the United States, developing alternative energy sources to lessen dependence on Mideast oil, and raising professional standards for service jobs. Mr. Ross also noted that security measures, including export controls and onerous U.S. visa requirements, can add to the difficulties of SMEs trying to increase exports.⁶⁶

⁶¹ National Association of Manufacturers, written submission to the USITC, March 25, 2010, 5.

⁶² USITC, hearing transcript, March 18, 2010, 57–63; Ross, written submission to the USITC, February 9, 2010.

⁶³ USITC, hearing transcript, March 18, 2010, 58–59.

⁶⁴ USITC, hearing transcript, March 18, 2010, 93–95.

⁶⁵ USITC, hearing transcript, March 18, 2010, 61.

⁶⁶ USITC, hearing transcript, March 18, 2010, 137–138, 155.

National Minority Business Council (NMBC)⁶⁷

According to Fritz-Earle McLymont, Managing Director of the NMBC, small and minority-owned businesses can help the United States meet President Obama's goal of doubling U.S. exports within five years. He stated that minority-owned firms are particularly well positioned to tap into emerging markets, since many such firms share cultural relationships with Asia, Africa, and Latin America, and he made several specific recommendations for ways to help minority firms export:

- The Ex-Im Bank and other U.S. agencies should develop new criteria for evaluating loan guarantees to minority businesses. These criteria should take into account the fact that information systems in emerging markets are less sophisticated than in the United States and other developed countries. The criteria should rely more on the management skills, character, and potential of the foreign buyers. U.S. commercial attachés abroad could help these businesses to meet the new standards. China and India, for example, use less restrictive evaluation criteria to increase exports to emerging markets.
- In addition to programs currently supported by the USCS, the SBA, and the Ex-Im Bank, U.S. government agencies should assist more minority firms in becoming “export-ready” by enhancing their operating knowledge about international trade. Long-term assistance is needed, and programs could work through academic institutions or mentorship organizations.
- Government agencies should reach out to minority-owned businesses by using media outlets that target these communities, including ethnic publications and organizations and churches.

NIMS Services Inc.⁶⁸

Michael Nicholas, president/CEO, stated that NIMS Services Inc. (NIMS) is a Washington, D.C.,-based small business that markets and services various fuels and lubricants. He stated in the company's written submission that the primary barriers to competing in the international markets are financing availability, a lack of willingness for larger contractors to establish joint ventures or other partnerships, and a lack of communication with federal agencies that are procuring goods and services. He also emphasized in his testimony the importance of access to credit and the need for assistance in accessing credit. He also asserted that a lack of knowledge in regard to understanding the policies and procedures for doing international business and financing international business operations is a barrier. He also stated that partnering with larger and experienced contractors is a method for overcoming these barriers, because such partners can give smaller businesses access to information and international markets they may not be able

⁶⁷ USITC, hearing transcript, March 18, 2010, 63–69; McLymont, written submission to the USITC, February 9, 2010.

⁶⁸ USITC, hearing transcript, March 18, 2010, 87; Nicholas, written submission to the USITC, January 28, 2010.

to obtain on their own. He added that the facilitation of these partnerships would be beneficial for SMEs.⁶⁹

North Carolina District Export Council⁷⁰

Herman Metzler of the North Carolina District Export Council submitted a 2006 white paper from Metzler & Associates, “Global Insight # 1: An Introduction to International Business,” as well as slides from a presentation, “Exporting 101.” The paper provides information on the benefits to U.S. firms that export including the creation of higher-paying jobs, sales growth, and increased productivity for exporters. The paper asserts that many more companies could export and that trade barriers can be overcome. It states that some of the most difficult barriers to trade involve “cultural differences,” and advises potential exporters to develop personal relationships with foreign partners. The paper includes advice to exporters on intercultural communications. The presentation slides cover information for exporters, including facts about the services provided by the Service of Retired Executives (SCORE); the benefits of exporting; trade barriers, including cultural differences; other factors that impact exports, including prices and export terms; advice on finding foreign partners; and where exporters can find assistance from U.S. government agencies.

Northwest Trade Adjustment Assistance Center⁷¹

Gary Kuhar, Executive Director of the Northwest Trade Adjustment Assistance Center (NWTAAAC), noted that the organization administers the Trade Adjustment Assistance (TAA) program for firms in the U.S. Northwest states. He said that its mission is to assist SMEs that have been negatively impacted by imports by developing strategic plans that will help them be more competitive in both the domestic and global market.

Mr. Kuhar stated in his submission that many of the firms it assists are not in a position to export, but the strategic adjustment plans it develops may still have an export component. He added that the primary barriers preventing SME exports include a lack of managerial knowledge and time to focus on export markets; a lack of financial resources to take on the risks associated with exporting; language deficiencies; a lack of resources to identify buyers; and a lack of understanding of the technical requirements and aspects of exporting, such as international contracts, licensing, export controls, transportation, letters of credit, and foreign distribution.

⁶⁹ USITC, hearing transcript, March 18, 2010, 87.

⁷⁰ Metzler, written submission to the USITC, March 26, 2010.

⁷¹ Kuhar, written submission to the USITC, March 24, 2010.

Oregon Department of Agriculture⁷²

Katy Coba, Director of the Oregon Department of Agriculture (ODA), stated that ODA works with approximately 34,000 farms, most of which are small family-owned farms, to market their products both domestically and abroad. She emphasized the importance of export markets to Oregon agriculture and stated that approximately half the value of Oregon production is exported. She further stated that the number one concern for agricultural exports from Oregon is a shortage of containers. Ms. Coba explained that because most imports come into the United States on the East Coast, there is often a shortage in containers available for exporters on the West Coast, which has driven up container prices. In addition, she asserted that nontariff barriers are also a tremendous impediment to exports and that concerns about certain pests and diseases often entirely prevent exports from entering markets. She also stated that the increased tariffs resulting from the Mexican trucking issue are preventing many agricultural products from the Pacific Northwest from entering Mexico. Lastly, she emphasized ODA's support for FTAs and for USDA's MAP program, which the ODA stated is critical to promoting Oregon agricultural products abroad.

Oregon Nanoscience and Microtechnologies Institute (ONAMI)⁷³

Mr. Robert D. "Skip" Rung stated that ONAMI helps grow research and commercialize technology. He said that nanotechnology start-up companies in the United States are crucial to maintaining competitiveness in future U.S. manufacturing markets, but that their success is not guaranteed given restrictive domestic policies, which potentially shift competitive advantages (and jobs) offshore. He noted that a company that is negatively impacted by domestic policies is not going to become an exporter and will likely lose market growth opportunities to foreign competitors who are not similarly affected by such constraints. Mr. Rung added that this will also disproportionately affect start-ups.

As an example, Mr. Rung cited a new precautionary approach by the U.S. Environmental Protection Agency (EPA) regarding new applications for nanomaterials, such as antimicrobial nanosilver. He said that the EPA is no longer accepting applications for certification for such products, despite ongoing shipments to the United States by incumbent suppliers based in Australia, South Korea, and Japan. He stated that the U.S. company affected—Dune Sciences—was told by the EPA in the spring of 2009 not to apply for certification of their product, given the concern regarding nanosilver and "a stop on accepting new applications." He said that this hampered Dune's efforts to market their "green" product (treatments for linens and gowns intended to help reduce MRSA in hospitals), resulting in the loss of jobs and decreased innovation.

Mr. Rung stated that whereas a similar situation regarding novel nanoproductions likely exists in Europe, it is less prevalent in Asia (e.g., in China and Korea). He said that the severity of current and future regulations in the United States and Europe is likely to

⁷² USITC, hearing transcript, March 12, 2010.

⁷³ USITC, hearing transcript, March 12, 2010, 154–9. Mr. Rung noted in his request to appear that he was not representing ONAMI in his remarks.

create a competitive disadvantage for U.S. and European companies. He also added, in response to a question about whether, in the absence of domestic constraints, foreign barriers to such products exist, he said that other companies with materials of art in nanosilver form have ongoing development agreements and activities with foreign partners, so he is not aware of foreign barriers to the products.

Oregon Tourism Commission dba Travel Oregon⁷⁴

The mission of the Oregon Tourism Commission (OTC), according to Todd Davidson, OTC's chief executive officer, is to encourage economic growth in Oregon by promoting tourism from domestic and international markets while encouraging increased expenditures by visitors to Oregon. Mr. Davidson stated in OTC's written submission that the procedure for entering the United States is the primary barrier to international travel to the United States. He said that the procedural barriers to international tourism reduce visitation and include misinformation on the entry and exit requirements, long wait times at customs, and long visa processing times. In order to minimize the impact of these barriers, he recommended that the United States facilitate the issuance of non-immigrant visas by improving overseas visa facilities and ensuring that the visa program is properly managed and funded. Mr. Davidson also suggested that benchmarks be established for visa wait times, that the visa waiver program be expanded, that the paper I-94W form be eliminated, and that visitors be properly informed about the electronic system for travel authorization.

Pacific Northwest International Trade Association⁷⁵

In his testimony, Walter E. Evans III of the Pacific Northwest International Trade Association, the leading trade advocacy group for Oregon and southwest Washington, stated that companies on the West Coast look to the Pacific Basin as their "natural market."⁷⁶ He stated that Pacific Northwest firms have "built deep, wide, and strong connections over the decades with Japan and other markets elsewhere in the Far East," and international trade is a vital element of the Pacific Northwest economy.⁷⁷

Mr. Evans stated that two strategic issues are "cornerstones" of successful trade policy: increased freight transportation efficiencies for export goods, and strong TAA programs.⁷⁸ He commented that SMEs are most at risk from transportation delays in getting products to export markets and that increased investment in infrastructure is needed to facilitate SME export growth. On TAA, Mr. Evans asserted that the United States should have a "robust" retraining program for workers displaced by imports.⁷⁹ Mr. Evans asserted that TAA should be an important part of broader U.S. trade policy to "get beyond the traditional fight between exporters and those whose jobs are threatened by trade."⁸⁰ He strongly supports the TAA programs of the USDOC and the U.S.

⁷⁴ Davidson, written submission to the USITC, March 8, 2010.

⁷⁵ USITC, hearing transcript, March 12, 2010.

⁷⁶ USITC, hearing transcript, March 12, 2010, 30.

⁷⁷ USITC, hearing transcript, March 12, 2010, 33.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ USITC, hearing transcript, March 12, 2010, 34.

Department of Labor. His recommendations on increasing SME exports include increasing U.S. government trade missions and niche product trade missions sponsored by the USDOC; expanding loan guarantee programs; and using videoconferencing between exporters in the United States and importers and contacts in foreign markets that have been vetted by U.S. embassies.⁸¹

Pacific Seafoods⁸²

In hearing testimony before the USITC, Charles Kirschbaum, Category Manager for Cold Water Shrimp Sales at Pacific Seafoods, stated that differential EU tariffs on U.S. and Canadian shrimp harm the U.S. West Coast shrimp industry. Specifically, Mr. Kirschbaum stated that the EU tariff on Oregon *Pandalus jordani* shrimp was assessed at a higher duty, 20 percent, compared with the Canadian *Pandalus borealis* shrimp (harvested off the East Coast of Canada), which was assessed 6 percent duty in 2009 and will become duty-free in 2010. He stated that the two shrimp varieties are nonetheless interchangeable: “they produce essentially the same finished product, and they’re going to the same markets.”⁸³

Mr. Kirschbaum asserted that the higher tariff on *Pandalus jordani* shrimp, combined with the rapid growth of the Canadian East Coast *Pandalus borealis* shrimp industry, have contributed to a contraction of the U.S. West Coast shrimp industry, such that the number of processing facilities has fallen dramatically over the last 15 years. He stated that the Oregon shrimp industry needs equal access to export markets—including the EU, the world’s largest shrimp market—in order for the U.S. West Coast shrimp industry to expand. According to Mr. Kirschbaum, “We have a sustainable fishery off of our coast that is underutilized. And we have unfair access to the largest market in the world for this particular shrimp.”⁸⁴

The Port of Portland⁸⁵

In hearing testimony, Greg Borossay, general manager of liner development at the Port of Portland, cited “equipment issues” as a significant export barrier.⁸⁶ In particular, Mr. Borossay mentioned container shortages resulting from the global oversupply of container ocean carriers caused by high competition among foreign-owned companies in North America. According to Mr. Borossay, this competition is heightened by the relatively lower trans-Pacific rates, particularly in Europe and Asia, which encourage shipping companies to send cargo via the trans-Pacific route as opposed to the North American trade lanes, exacerbating the lack of availability of containers in North America.

In his testimony, Mr. Borossay said the world oversupply of carriers has resulted in about 13 percent of the vessels idled. He said that this is problematic because these furloughed

⁸¹ USITC, hearing transcript, March 12, 2010, 35, 96.

⁸² USITC, hearing transcript, March 12, 2010.

⁸³ USITC, hearing transcript, March 12, 2010, 211.

⁸⁴ USITC, hearing transcript, March 12, 2010, 212, 213, 227.

⁸⁵ USITC, hearing transcript, March 12, 2010, 22–8.

⁸⁶ USITC, hearing transcript, March 12, 2010, 22.

vessels typically contain empty containers, which can no longer be used; this has been occurring over the past 18 months and is likely to continue until the global economy improves.

An additional problem for container ocean carriers, according to Mr. Borossay's testimony, is that they face "significant rate increases from the class one railroads, with a near tripling of costs for empty repositioning from the major empty termination points of Chicago, the Northeast, and the Southland in California to the U.S. Pacific Northwest."⁸⁷ Mr. Borossay also said that ocean carriers are now passing along these cost increases to the exporters, which could eventually translate into a higher cost for the exported commodity from the U.S. relative to competitors overseas.

Another problem for exporters, according to Mr. Barrosay, is the differences in equipment flows to and from North America and the "dead weight limitations on the vessels."⁸⁸ He stated that "export cargo is more than double the weight of import cargo, which limits what can be loaded onto export vessels." To address these challenges, Mr. Borossay said that the Port of Portland is trying to develop its import warehouse distribution system so as to maintain a sufficient container supply in North America.

RAD-CON⁸⁹

In a written submission, Mr. Christopher J. Messina of RAD-CON, a capital-goods manufacturer of steel equipment and technology, provided two policy recommendations that would "alleviate constraints" on RAD-CON's exports.⁹⁰ First, Mr. Messina stated that rules restricting the Ex-Im Bank from supporting his firm's exports should be eliminated. According to Mr. Messina, the Ex-Im Bank is prohibited from supporting U.S. firms that support the production of products that are subject to trade orders, such as steel, a rule that affects his firm's ability to export steel-processing equipment. He asserted that this rule came into effect in 2002 and was a "leftover" from the Section 201 protections. Mr. Messina argued that conditions in the U.S. steel industry have changed dramatically since the rule went into effect; he said that the prohibition currently benefits U.S. competitors and may actually hurt U.S. steel producers by limiting their availability to new domestic processing technology.

Mr. Messina also suggested that U.S. trade policy should be focused on promoting free trade. He stated that retaliatory tariffs, such as the recent U.S. tariff on Chinese tires, only serve to protect a "narrow interest" and are "poisonous" to the environment for U.S. exporters, including exporters of capital equipment.⁹¹ Mr. Messina also commented that unilateral trade embargoes, such as the one against Iran, are ineffective, particularly when the embargoed country can obtain the same goods from other international suppliers such as Europe. He stated that these embargoes only serve to harm the interests of U.S. exporters.

⁸⁷ USITC, hearing transcript, March 12, 2010, 24.

⁸⁸ USITC, hearing transcript, March 12, 2010, 26.

⁸⁹ Messina, written submission to the USITC, February 26, 2010.

⁹⁰ Rad-Con, written submission to the USITC, February 26, 2010, 1.

⁹¹ Rad-Con, written submission to the USITC, February 26, 2010, 2.

Reddix Corp⁹²

Joseph W. Reddix, president and chief executive officer of the Reddix Group, stated in testimony that small exporters are constrained by limits on cultural awareness, understanding of business environment, and access to legal and accounting resources. Mr. Reddix discussed the strategy of forming teams or consortiums of small businesses as a way to address these constraints; such teams can pool their resources and display some of the strengths and advantages of large firms. He stated, for example, that a small firm interested in exporting to India could work with a team member who has experience with program management and application development in that country. He acknowledged that this strategy depends on having consortium members with a range of expertise. Mr. Reddix stated that the Federal government has made teams of small firms eligible for part of an acquisition contract worth \$20 billion over 10 years.

Mr. Reddix also noted that both small firms and teams of small firms can learn from the example of large exporters. He suggested that the U.S. government facilitate a mentorship program between international large firms and small firms interested in exporting. Mr. Reddix noted that he became comfortable with international transactions in part by working for large international firms before coming to his current position. Mr. Reddix stressed the importance of exporters' acquiring both technical and interpersonal skills.

Roeslein & Associates, Inc.⁹³

In a written submission and hearing testimony, Rudi Roeslein, chief executive officer of Roeslein & Associates, Inc, identified the failure to recover payments from customers; the lack of uniformity across countries that apply the value-added tax (VAT) system—such as the EU and China; import duties abroad; and “the intellectual property safeguard in China and their continued lack of [IP] enforcement” as the principle barriers for SMEs seeking to export.⁹⁴ The company designs and builds can manufacturing processes.⁹⁵

According to Mr. Roeslein, “there’s not a very uniform approach . . . on issues around VAT,” as customers are able to delay or avoid paying what they owe in VAT.⁹⁶ Mr. Roeslein added that these problems are compounded by difficulties that U.S. exporters experience in getting paid by their clients. Mr. Roeslein also suggested that the United States government could help SMEs overcome such barriers, including problems with collecting VAT revenue, overcoming import duties, and ensuring parity for SMEs in regard to import duties.

⁹² USITC, hearing transcript, March 18, 2010, 205–239.

⁹³ USITC, hearing transcript, March 10, 2010, 190–99; Roeslein & Associates, Inc., written submission to the USITC, February 17, 2010.

⁹⁴ Roeslein & Associates, Inc., written submission to the USITC, February 17, 2010. Mr. Roeslein stated that China’s VAT (17 percent) is very high. He also said that import duties vary considerably among different countries depending on how a foreign government classifies a product, citing Brazilian duties of 35–40 percent for products that his company tried to export.

⁹⁵ Request to appear at the March 10, 2010 hearing, Roeslein & Associates, Inc., February 17, 2010.

⁹⁶ USITC, hearing transcript, March 10, 2010, 196.

Sauereisen Inc.⁹⁷

In a written submission, C. Karl Sauereisen of Sauereisen Inc., a manufacturer of specialty adhesives and chemical-resistant construction materials, stated that the company favors “reciprocal” FTAs to remove trade barriers.⁹⁸ Mr. Sauereisen stated that his firm faces a number of export barriers, including logistics and documentation issues, financing, and product application challenges. Mr. Sauereisen stated that his company faces typical export-related logistics challenges through the supply chain, including an “ever-proliferating” amount of regulatory and tariff paperwork.⁹⁹ Mr. Sauereisen commented that the credit risks posed by foreign customers requires his firm to regularly negotiate export payment terms to ensure that the company is paid in a timely manner. Mr. Sauereisen stated that another problem posed by exporting is that the success of his company’s products depends on proper installation. He stated that contractors in China do not always apply the product properly, which puts the reputation of his company at risk, requiring his firm to make a significant investment in training.

Mr. Sauereisen also commented that protectionism in certain export markets also hinders the firm’s exports. He cited an example of an asphalt-based membrane product that the firm exports to Venezuela. According to Mr. Sauereisen, in order to import the product, the Venezuelan importer is required to obtain extensive documentation certifying that the product cannot be manufactured domestically. He added that the authorization has to be renewed every six months, which is costly and time-consuming.

Secondary Materials and Recycled Textiles (SMART)¹⁰⁰

In SMART’s written submission, Jackwelyn R. King, SMART’s Executive Director, identified the disproportionately negative impacts that tariff and nontariff barriers have on SMEs relative to large corporations. According to the statement, larger companies can overcome these barriers to trade by “restructuring operations, creating economies of scale and influencing domestic and international policy,” while SMEs are constrained by their relatively limited resources and small influence in competitive markets.¹⁰¹ Ms. King also said that these problems are more acute for SMEs in the second-hand textiles industry because of their relatively low profit margins; international restrictions on the imports of used textiles (31 countries impose these restrictions); “lack of ocean vessel capacity” because “carriers removed vessels from service in response to a dramatic drop in demand during the recession”; and poor knowledge of the industry on the part of U.S. officials, which limits the extent to which this industry’s concerns are appreciated in Washington.¹⁰²

⁹⁷ Sauereisen, written submission to the USITC, January 20, 2010.

⁹⁸ Sauereisen, written submission to the USITC, January 20, 2010, 2.

⁹⁹ Sauereisen, written submission to the USITC, January 20, 2010, 1.

¹⁰⁰ King, written submission to the USITC, March 26, 2010.

¹⁰¹ King, written submission to the USITC, March 26, 2010, 2.

¹⁰² King, written submission to the USITC, March 26, 2010, 3.

Software Association of Oregon¹⁰³

In hearing testimony, Matt Ness, president of the Software Association of Oregon, identified the leading obstacles for SMEs seeking to export, including a lack of familiarity with export opportunities; the burdensome expenses associated with conducting market research; difficulties in protecting their intellectual property; and the convoluted rules on export restrictions, such as technology licensing. Mr. Ness also stated that companies should reach a “certain level of revenue” and require the removal of trade barriers before they can be successful exporters.¹⁰⁴

Mr. Ness contrasted the sales strategies used by SMEs in the United States and those found in the EU: whereas SMEs in the EU typically grow their businesses by exporting to countries throughout the region, the United States SMEs typically establish a domestic presence before expanding their sales overseas. U.S. SMEs, according to Mr. Ness, are discouraged by the possibility of corruption abroad.

Spartan Light Metal Products¹⁰⁵

In his testimony, Mike Sparks, Spartan’s executive vice president of operations, mentioned that Spartan has been in business for almost 60 years and has three U.S. manufacturing facilities. He said they manufacture parts that are lighter and more durable than the norm, largely through use of magnesium and aluminum alloys. He added that their products have an extensive supply chain, often involving multiple parts sourced from multiple suppliers, maintaining a significant number of jobs in the value chain. Mr. Sparks stated that the company also exports, solely to serve their customers, and that their only barrier to exporting is the U.S. countervailing duty on magnesium, which provides an advantage to their competitors. Mr. Sparks explained that countries eligible for the North American Free Trade Agreement (NAFTA) can buy magnesium from global suppliers at a competitive price, manufacture the downstream product(s), and then ship the products to U.S. customers duty free under NAFTA. Mr. Sparks said that if the countervailing duty continues, it will result in continuing loss in U.S. jobs, declining U.S. manufacturing, and increased U.S. imports. He said that the North American Die Casting Association had estimated that the countervailing duty on magnesium has contributed to the loss of 1,675 direct jobs in the United States.

He cited several changes since the implementation of the countervailing duty: (1) China now has an export tax of 10 percent on magnesium (versus an export tax rebate in 2005); (2) in June 2009, the United States and Mexico filed a WTO case against China over export restraints on raw materials; and (3) in November 2009 the EPA named the sole U.S. producer, U.S. Magnesium LLC, as a Superfund toxic site, prompting concern with Spartan and its customers about the reliability of their future supply and pricing. Mr. Sparks said that magnesium is now no longer a cost-effective substitute for aluminum in the United States and the magnesium business is moving out of the United States. He said that U.S. consumers of magnesium have a 30–40 percent disadvantage in the cost of raw materials and a resulting 15–20 percent price disadvantage. He said that his customers are

¹⁰³ USITC, hearing transcript, March 12, 2010, 36–44.

¹⁰⁴ USITC, hearing transcript, March 12, 2010, 40.

¹⁰⁵ USITC, hearing transcript, March 10, 2010.

switching to aluminum because of the cost differential and that Spartan has lost 45 percent of its market share. Mr. Mike Dierks, vice president of Spartan, also noted in response to questions that the sole U.S. producer couldn't provide enough magnesium to supply all of the consuming industries—although, he added, it is likely that the consumption of magnesium will decline sharply over the next five years if the duty is continued. Mr. Sparks stated, also in response to questions, that Russia and China, the subjects of the countervailing duty order, supply about 95 percent of the market. Canada is the other significant supplier, and there are also suppliers in Israel, France, and Norway, but all are concerned about selling in the United States at a price lower than that of the U.S. producer. In response to a question about whether Spartan has considered possibly establishing a facility outside the United States (e.g., in Canada or Mexico), they responded that although they would not wish to do this, it may be necessary for them to manufacture in Mexico.

Mr. Sparks requested the Commission's help and support in (1) either discontinuing or modifying the countervailing margin so that it excludes the magnesium alloy needed in the industry; (2) finding a way to protect the magnesium alloy industry as they have the raw materials supplier; or (3) trying to protect the sole U.S. producer without hurting downstream consumers. He said that if the countervailing duty were removed, they could export 30 percent more (about \$40 million).

Mr. Sparks also noted that Spartan belongs to a networking organization called Senior Executive Network. He said this organization is developing a national presence and could give "leverage" to several hundreds of companies.¹⁰⁶

Sunnen Products Co.¹⁰⁷

In his testimony, Thomas E. Dustman, International Sales Director of Sunnen Products Co., a producer of honing machines and related honing abrasives, detailed his company's experience as an SME exporter and identified current export barriers. Mr. Dustman stated that in 2009 China, India, and Brazil were significant export markets for Sunnen Products, in addition to traditional leading markets of Western Europe and Canada.

Mr. Dustman highlighted some of the following key issues that affect the company's exports, including high import duties in China, India, Brazil, and Russia. He stated that duties on Sunnen's exports of its honing machines to Brazil and India are both about 30 percent each, with resulting lost sales in each market of \$900,000 and \$1.3 million, respectively, or the equivalent of 10 jobs in St. Louis for each market. According to Mr. Dustman, lost sales of the consumables used in honing operations, such as special abrasives, were also significant. He cited other key barriers, including (1) lengthy delays at foreign ports because of customs issues; (2) local competitors receiving favorable bank financing from which importers are excluded; and (3) import duties on "test or trial" consumables, which act as a disincentive to expanding exports and improving local manufacturing processes.¹⁰⁸ Also, Mr. Dustman noted other, lesser important, export issues, including the costs of travel for after-sales support; intellectual property theft, particularly copying of machines by Chinese competitors; and delays or refusals by U.S.

¹⁰⁶ USITC, hearing transcript, March 10, 2010, 279.

¹⁰⁷ USITC, hearing transcript, March 10, 2010; Dustman, exhibits/testimony March 10, 2010, [2–13].

¹⁰⁸ USITC, hearing transcript, March 10, 2010, 158.

immigration authorities to allow foreign workers or customers' employees to enter the United States.

With regard to overcoming some of these issues, Mr. Dustman stated that Sunnen attempts to source products locally in foreign markets, shift the shipping location to allow for intercompany transfers rather than shipping directly to the customer, and lower prices to certain markets. FTAs have allowed Sunnen to expand its business in Canada, but exports to Mexico and Central America remain small. Future FTAs would be helpful in reducing foreign import duties that currently provide an advantage to local producers in that market. Further, streamlining the U.S. export documentation would likely benefit Sunnen.

Tiba Medical, Inc.¹⁰⁹

In a written submission, Merat Bagha, president and chief executive officer of Tiba Medical, Inc., a manufacturer of hypertension diagnostic and treatment products, said that he would like to see more harmonization of countries' regulatory regimes for medical devices and would like to address unfair competition and lack of transparency. Tiba Medical, according to his written submission, has obtained required regulatory clearances and registrations for its products from the relevant authorities in the United States, the International Standards Organization (ISO), the EU, Canada, Korea, Australia, and "a number of other smaller countries such as Argentina."¹¹⁰ He stated that the company is working to obtain regulatory approval in Japan and China. He said that Tiba Medical has spent hundreds of thousands of dollars obtaining regulatory clearances and registrations and will continue to spend thousands of dollars annually to maintain its registrations.

Mr. Bagha seeks greater harmonization of guidance and standards between the U.S. Food and Drug Administration (FDA); global bodies, such as the ISO, the International Electrotechnical Commission, and the Institute of Electrical and Electronics Engineers (IEEE); and other countries. He said that current harmonization efforts have been slow and tedious and added that better international coordination of guidance and standards, and further adoption of such guidance and standards by the FDA, would reduce costs and lessen approval time for all parties. Further, he noted that China, Brazil, and Japan should also be urged to "accept FDA and EU approvals without requiring a long, detailed and expensive approvals process," as this would allow his company easier access to those markets.¹¹¹ Mr. Bagha states that Tiba Medical has "given up on entering the markets in Brazil and Russia given the huge expenses involved and the lack of transparency in both of these markets."¹¹² Italy, he notes, enforces its own laws for medical device registration that supersede EU regulations.

Lastly, Mr. Bagha states that Chinese medical device firms "aggressively" copy U.S. and European technologies and market these at lower prices in world markets.¹¹³ Chinese medical device companies offer lower-quality products, but they are determined to gain market share and know-how. Tiba Medical has notified the FDA about Chinese

¹⁰⁹ Bagha, written submission to the USITC, March 26, 2010.

¹¹⁰ Ibid.

¹¹¹ Bagha, written submission, March 26, 2010, 2.

¹¹² Ibid.

¹¹³ Bagha, written submission, March 26, 2010, 1.

companies marketing in the United States without regulatory clearances. However, Mr. Bagha noted that there is little U.S. enforcement, mentioning he has been told that it is a matter of available resources.

TradeMoves LLC¹¹⁴

In a written submission, Shawn Marie Jarosz, Managing Director, said TradeMoves LLC is an SME consulting firm assisting companies with their importing and exporting interests. She focused on two points: the contrast between the trade information resources available to EU and U.S. SMEs, and the several major ways that SMEs are disadvantaged as compared with multinational corporations (MNCs).

According to her submission, the EU offers access to its Market Access Database to EU-based companies at no cost to users.¹¹⁵ She said that the database covers foreign tariffs, taxes, import requirements and documentation, trade data, and trade barriers. She added that the database also allows firms to file complaints about export barriers directly to the EU Commission and to contact EU Commission offices and member state agencies for further information or to request market access assistance. In contrast, she said, comparable U.S. government information on foreign markets is spread across several U.S. government agencies, including the U.S. Trade Representative, USDA, USDOC, and USITC. Ms. Jarosz noted in her submission that “the EU database makes great strides to improve predictability and simplification in understanding other export markets for their exporters,” and recommended “a one-stop window with comprehensive trade information available to [U.S.] SMEs” as a critical component in supporting the President’s National Export Initiative.¹¹⁶

With regard to SMEs as compared to MNCs, Ms. Jarosz noted that SMEs generally export only one or two products and usually to only one market—the one that is the closest in geography and culture. She commented that SMEs may not know of existing FTAs or of those under negotiation, and therefore do not consider those FTA partner countries as potential new markets. Further, she said that SMEs lack the resources and funding to support personnel to evaluate preferential trade agreements to determine optimal sourcing strategies or market access costs. Finally, she stated that SMEs may not know about applicable rules of origin and the related documentation that is required to obtain lower tariffs.

U.S. Chamber of Commerce¹¹⁷

In her written submission, Liz J. Reilly, Director, TradeRoots, the U.S. Chamber of Commerce, states that the Chamber of Commerce is the world’s largest business federation, representing more than 3 million businesses from all sectors and regions. She said that the U.S. Chamber’s TradeRoots program is a national trade education program designed to raise support for and awareness of international trade. In her submission, she calls for doubling the level of federal government support for export promotion programs

¹¹⁴ Jarosz, written submission, March 24, 2010.

¹¹⁵ The EU Market Access Database can be found at <http://madb.europa.eu/mkaccdb2/indexPubli.htm>.

¹¹⁶ TradeMoves LLC, written submission to the USITC, March 24, 2010, 2.

¹¹⁷ Reilly, written testimony to the USITC, February 9, 2010.

from the current level of \$335 million annually, and following the models of several successful state programs in Massachusetts, Nevada, Pennsylvania, and Florida. She states that businesses that have taken advantage of U.S. federal government export promotion programs are more successful exporters, but that many SMEs are not aware of those opportunities, so more money should be devoted to SME outreach.

Ms. Reilly also stated that an important way to promote SME exports would be for Congress to pass the pending bilateral FTAs with Colombia, Panama, and South Korea, citing a study performed by the U.S. Chamber showing that the United States could lose more than 380,000 jobs and \$40 billion in net export sales if the FTAs do not pass and similar bilateral FTAs between those countries and the EU and Canada do pass. Beyond simply reducing tariffs, her submission states that important aspects of the pending FTAs include reducing nontariff barriers, protecting intellectual property, opening up trade in services, and increasing opportunities from government procurement. Ms. Reilly presented a detailed discussion of the benefits to exports of each of the three pending FTAs.

Washington State Potato Commission¹¹⁸

In his testimony, Matt Harris, Director of Trade at the Washington State Potato Commission, a trade association representing the approximate 250 potato growers in Washington state, briefly explained the potato trade. He noted that Washington state is the second-largest potato producer in the United States; that 9 out of 10 potatoes are marketed out of state; and that the farmgate value of the crop is over \$690 million, with a value to the state of \$3.5 billion. He stated that approximately 75 percent of the crop is sold to processors to be made into French fries, while 12 percent goes to the fresh market, 9 percent to the dehydrated market, 3 percent to potato chips, and 1 percent to miscellaneous uses.

One of the principal issues Mr. Harris testified about is a Canadian antidumping duty order applied to fresh potatoes exported to British Columbia. He said that Canadian authorities apply what the Washington State Potato Commission believes is a low selling price in analyzing the market for dumping by importers; as a result, the antidumping duty order has been in place for 25 years. He said that this reduces exports from Washington state to Canada, causing Washington producers to lose millions of dollars in potential sales. Mr. Harris said that the antidumping order has resulted in potato production shifting to Canada to supply global french fry producers.

A second issue he mentioned is that Washington state exports of french fries are subject to a 20-percent retaliation duty imposed by Mexico against the United States as a result of the dispute between the countries regarding Mexican trucking activities in the United States. Mr. Harris testified that U.S. exports of french fries declined by almost \$28 million since the duties were imposed in April 2009, with Canadian producers benefiting from the lower U.S. market share.

Mr. Harris stated that Washington state potato producers and processors were likely to lose significant market opportunities in Korea, Colombia, and Panama unless pending

¹¹⁸ USITC, hearing transcript, March 12, 2010; exhibits/testimony, March 12, 2010, pt. 2, [40–53].

U.S. FTAs were implemented with these countries. He said that in the absence of such FTAs, U.S. exporters of potatoes and potato products would lose markets to competitors from Europe and other regions with preferential market access in those countries.

With regard to nontariff export barriers, Mr. Harris mentioned that most were phytosanitary measures affecting fresh potatoes and were encountered particularly in China, Europe, Japan, and Mexico. However, he said “We just acquired access or the ability to ship [fresh potatoes] to Russia.”

West Coast Seafood Processors Association (WCSPA)¹¹⁹

In his testimony, Mr. Rod Moore, Executive Director of the WCSPA, a trade association representing shore-based seafood processors in California, Oregon, and Washington, compared the disproportionately high EU tariff imposed on U.S. exports of cold-water shrimp, *Pandalus jordani*, commercially harvested off the coast of Oregon, with the duty-free treatment accorded to EU imports of similar shrimp exports from Canada, Iceland, and Norway. Mr. Moore introduced Mr. Doug Heater, sales manager of Bornstein Seafoods, and Charles Kirschbaum, category manager for cold water shrimp sales of Pacific Seafoods, to testify about export barriers to U.S. exports of *Pandalus jordani* shrimp. (See positions of interested parties for Bornstein Seafoods and Pacific Seafoods).

Mr. Moore stated that the immediate concern was high EU tariffs, and that he would not address nontariff barriers affecting U.S. exports of this type of shrimp. During the hearing, Mr. Moore stated that Europe is the best market for Oregon’s exports of *Pandalus jordani* shrimp. Later, in questioning by Commissioners, Mr. Moore described nontariff barriers encountered in exporting to Canada, which included tolerance levels for mercury in seafood that are lower than those set by the FDA. He noted that once the Canadian tolerance limits are exceeded, the exporter is recorded on a “Canadian bad guy list” and, in order to be removed from the list, the exporter must have three subsequent shipments within tolerance levels shipped to the same buyer in Canada.¹²⁰ But frequently, Mr. Moore stated, Canadian computers that track the “bad guy list” are not updated, and therefore exporters remain on the list. Later in his testimony, Mr. Moore noted that in Oregon, there is a rationalization process in the fishing fleet as a result of U.S. government restrictions on fishing to protect the Oregon fishery, and as a result there would likely be an influx of fishing boats trawling for shrimp, but these fishermen would likely have few markets.

Wine Institute et al¹²¹

In his testimony, James Gore, representing the Wine Institute, California Association of Winegrape Growers, and Wine America, commented that the U.S. wine sector is dominated by SMEs, which “are the lifeblood of the industry, just as they are the lifeblood of the U.S. economy.”¹²² Mr. Gore touched on several points of importance to U.S. wine sector SMEs, including the need for reduced trade barriers and a call for

¹¹⁹ USITC, hearing transcript, March 12, 2010; exhibits/testimony, part 2, March 12, 2010.

¹²⁰ USITC, hearing transcript March 12, 2010, 235.

¹²¹ USITC, hearing transcript, March 18, 2010.

¹²² USITC, hearing transcript, March 18, 2010, 76.

increased government assistance for export promotion activities. Mr. Gore stated that major competitor countries such as Australia, Chile, and the EU benefit from government trade policies and promotional support that provide increased advantages to competitive exporters.

Mr. Gore cited Chile as an example of a competitive wine exporter that negotiates more favorable trade agreements than the United States—ones that give their exporters competitive advantages in important export markets.¹²³ He also commented that the EU is spending \$400–\$500 million annually for export promotion, compared to about \$7 million by the U.S. government, and that Australia has significantly more personnel dedicated to market development efforts than the United States.

Mr. Gore commented that the U.S. government programs are very helpful for U.S. wine exports and should be expanded. He stated that the USDA's MAP program is particularly effective in promoting U.S. exports. Mr. Gore asserted that a number of U.S. government programs, including the MAP program, other USDA/FAS assistance programs, and the Alcohol and Tobacco Tax and Trade Bureau's International Trade Division, need to be enhanced and expanded.¹²⁴ He stated that wine sector-specific trade initiatives such as U.S.-EU bilateral trade agreement in wine and the World Wine Trade Group's agreements and consultations have been very effective in lowering trade barriers to U.S. wine exports.¹²⁵

Zoltek Corporation¹²⁶

In her testimony, Ms. Karen Bomba, Zoltek's chief operating officer, stated that Zoltek manufactures carbon fibers in various forms used in industrial structures, such as wind turbine blades and automobile structures, among others. She said that their largest market is currently in Denmark, while the fastest-growing carbon fiber markets are in Asia, particularly China and India, and Zoltek currently has export licenses for customers in China, Turkey, Croatia, Russia, Thailand, and Singapore. Ms. Bomba said that exports of carbon fibers were originally controlled because they were used in components for ballistic missiles. She added that although uses are now much broader, there is still some sensitivity (e.g., possible use in centrifuges could be problematic in countries seeking nuclear capacity).

Ms. Bomba said that Zoltek's export customers are often put off by U.S. export controls that can lengthen cycles of testing, validating, and qualifying the product being marketed. She noted that Zoltek has two facilities—one in Hungary and one in the United States—and each applies for export control licenses in their respective countries. Ms. Bomba stated, however, that there are significant differences in applying for licenses in the two countries, saying that Hungary surpasses the United States in many areas—Hungarian authorities issue licensing faster, require significantly less documentation, and issue global export licenses. Given these differences, Ms. Bomba said that when U.S. exports require licenses Zoltek will usually ship the product(s) from Hungary so as not to lose the sale, even though the transportation costs might be higher. She added that some of

¹²³ USITC, hearing transcript, March 18, 2010, 79.

¹²⁴ USITC, hearing transcript, March 18, 2010, 81–82.

¹²⁵ USITC, hearing transcript, March 18, 2010, 82.

¹²⁶ USITC, hearing transcript, March 10, 2010.

Zoltek's Chinese customers may purchase from Chinese or Taiwanese suppliers rather than from Zoltek because of the U.S. export controls. When asked if Zoltek's exports would increase if the "red tape" were removed, Ms. Bomba said that they are currently supplying all of their customers, but from Hungary rather than the United States.¹²⁷ She said that getting the product from Hungary can be a problem for some customers who might qualify product for use in their application based on its source.

Ms. Bomba also mentioned several other challenges Zoltek faces. She said that REACH affects Zoltek in that some of the chemicals used in Zoltek's sizings will not be allowed into the EU under REACH, and the company will also be paying for some of the testing of chemicals needed under REACH. In response to a question about tariffs the company faces, Ms. Bomba mentioned that they had explored shipping carbon fiber to Brazil but found that "[the tariff] was going to be 42 percent."¹²⁸ In response to other questions, Ms. Bomba mentioned difficulty in obtaining visas for their Hungarian engineers to enter the United States, saying that the process could take 9–18 months for a one- to two-year rotation.

Ms. Bomba asked that the U.S. Bureau of Industry and Security reconsider the regulations for issuing licenses for carbon fibers; allow for de minimis sampling of small quantities to customers; accelerate issuance of licensing; and consider the idea of a global license. She added that a global license would allow Zoltek to ship more from the United States and might also allow it to supply more foreign customers from within the customer's market (i.e., the company could ship to China and then use that product to supply customers). She also suggested that following the European model (in which companies can keep documents from the licenses and would then be allowed to ship immediately) might be helpful in the United States.

¹²⁷ USITC, hearing transcript, March 10, 2010, 233.

¹²⁸ USITC, hearing transcript, March 10, 2010, 301.

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APPENDIX A
Request Letter

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

October 5, 2009

The Honorable Shara L. Aranoff
Chairman
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

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| SECRET NUMBER 2690 ----- Office of the Secretary Int'l Trade Commission |
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2009 OCT 7 AM 9:10
OFFICE OF THE SECRETARY
U.S. INTERNATIONAL TRADE COMMISSION

Dear Chairman Aranoff,

Small and medium-sized enterprises (SMEs) are vital to the U.S. economy. SMEs represent over 99 percent of employer firms in the United States and account for just over half of all private sector employment. Even more important to a country seeking rapid job gains in a post-recession economy, SMEs have generated almost two-thirds of net new jobs in the last 15 years. Although SMEs constitute 97 percent of all exporting firms, they only account for 30 percent of the total value of U.S. exports. Many analysts believe that the SMEs' share of U.S. exports could be larger if national policy more clearly focused on the special constraints to exporting faced by these firms.

As U.S. trade policies strive to open markets, enforce trade agreements, and support the healthy expansion of trade, it is critical that SMEs benefit as much as possible from exporting goods and services to foreign markets and contribute as much as they can to overall U.S. export growth. To achieve this goal, certain constraints to exports by these firms may need to be removed.

As the Administration considers policy initiatives to strengthen the export presence of U.S. SMEs in the global marketplace, it would benefit significantly from a detailed assessment of the present role of SMEs in U.S. trade. It is notable, in reviewing current information, that there are many gaps in our understanding of SME's and their exports. The Commission's specialized knowledge of U.S. trade and the breadth and depth of the Commission's trade-focused resources can address these gaps. Therefore under the authority of section 332(g) of the Tariff Act of 1930, I request that the Commission investigate the role of U.S. SMEs in trade, using data obtained from the U.S. Bureau of the Census and other databases, a literature review, and primary data collected through questionnaires, interviews, and hearings, to the extent possible. I further request that the Commission deliver its work in three reports, as follows:

Report I

In the first report, the Commission should give an overview of the current state of SMEs' participation in U.S. exports. **The report should describe, to the extent possible, characteristics of SMEs, their exports, and their role in generating employment and economic activity in the U.S. economy.** The report should focus on merchandise and services exports by U.S. SMEs, providing information on the value of SME exports, the

products and sectors involved, large markets for U.S. SMEs' exports, and how SME exports have changed over time with respect to these factors. This report should also identify gaps in currently available data that may inhibit a more comprehensive understanding of SME participation in export trade. The report should be delivered within three months from receipt of this letter.

Report II

In the second report, we request that the Commission assist in analyzing the performance of U.S. SME firms in exporting compared to SME exporting in other leading economies. As one way of comparing American performance to that of other countries we request that the Commission compare the exporting activity of EU and U.S. SMEs and analyze the distinctions between U.S. and EU firms in terms of sectoral composition, firm characteristics, and exporting behavior. The Commission should also identify barriers to exporting noted by U.S. SMEs, as well as SME strategies to overcome special constraints and reduced trade costs on SME exports. Also, the Commission should identify the benefits to SMEs from increased export opportunities, including free trade agreements and other trading arrangements. The second report should be delivered no later than nine months from the receipt of this letter.

Report III

The third report should, to the extent possible, examine U.S. SMEs engaged in providing services, including the characteristics of firms that produce tradable services, the growth in these services exports, and the differences between SME and large services exporters. Also, the Commission should identify how data gaps might be overcome to further enhance our understanding of SMEs in services sector exports. In addition, for both goods and services exports, the third report should identify trade barriers (nontariff barriers and tariffs) that may disproportionately affect SME export performance, as well as possible linkages between exporting and SME performance. Finally, it should provide insights on the degree to which SMEs operate as multinationals, as affiliate firms, or as contributors of "indirect exports" to international trade through sales to larger exporting firms. The third report should be delivered one year from receipt of the request letter.

I anticipate that the Commission's reports will be made available to the public in its entirety. Therefore, the reports should not contain any confidential business or national security information.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron Kirk", written in a cursive style.

Ronald Kirk

APPENDIX B
***Federal Register* Notices**

4. Right-of-Way N-51242 for water storage tanks, road, water pipeline, and ancillary facility purposes granted to the City of Fernley, its successors or assigns, pursuant to the Act of October 21, 1976 (43 U.S.C. 1761);

5. Right-of-Way N-58193 for road and buried utility purposes granted to DB Fernley Investments, Ltd, its successors or assigns, pursuant to the Act of October 21, 1976 (43 U.S.C. 1761);

6. Rights-of-Way N-63393 and Nev-060169 for gas pipeline purposes granted to Paiute Pipeline Company, its successors or assigns, pursuant to the Act of February 25, 1920 (30 U.S.C. 185);

7. Right-of-Way N-73706 for communication purposes granted to Nevada Bell, its successors or assigns, pursuant to the Act of October 21, 1976 (43 U.S.C. 1761);

8. Right-of-Way N-75056 for gas pipeline purposes granted to Southwest Gas Corporation, its successors or assigns, pursuant to the Act of February 25, 1920 (30 U.S.C. 185);

9. Right-of-Way N-84710 for gas pipeline purposes granted to DB Fernley Investments, Ltd, its successors or assigns, pursuant to the Act of February 25, 1920 (30 U.S.C. 185). Holders of rights-of-way N-51242, N-58193, N-63393, and N-84710 have submitted applications to exercise term extension and conversion to easement opportunities. The land conveyance will be subject to these modifications.

10. The purchaser/patentee, by accepting patent, agrees to indemnify, defend, and hold the United States harmless from any costs, damages, claims, causes of action, penalties, fines, liabilities, and judgments of any kind arising from the past, present, or future acts or omissions of the patentee, its employees, agents, contractors, or lessees, or a third party arising out of, or in connection with, the patentee's use and/or occupancy of the patented real property. This indemnification and hold harmless agreement includes, but is not limited to, acts and omissions of the patentee, its employees, agents, contractors, or lessees, or third party arising out of or in connection with the use and/or occupancy of the patented real property resulting in:

(a) Violations of Federal, State, and local laws and regulations that are now, or in the future become, applicable to the real property;

(b) Judgments, claims, or demands of any kind assessed against the United States;

(c) Costs, expenses, or damages of any kind incurred by the United States;

(d) Releases or threatened releases of solid or hazardous waste(s) and/or

hazardous substance(s), as defined by Federal or State environmental laws, off, on, into, or under land, property, and other interests of the United States;

(e) Other activities by which solid or hazardous substances or wastes, as defined by Federal and State environmental laws are generated, released, stored, used, or otherwise disposed of on the patented real property, and any cleanup response, remedial action, or other actions related in any manner to said solid or hazardous substances or wastes; or

(f) Natural resource damages as defined by Federal and State law. This covenant shall be construed as running with the patented real property and may be enforced by the United States in a court of competent jurisdiction.

11. Pursuant to the requirements established by Section 120(h) of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) (42 U.S.C. 9620 *et seq.*), as amended by the Superfund Amendments and Reauthorization Act of 1988, (100 Stat. 1670), notice is hereby given that the above-described land has been examined and no evidence was found to indicate that any hazardous substances have been stored for 1 year or more, nor had any hazardous substances been disposed of or released on the subject property.

Encumbrances of record, appearing in the BLM public files for the parcel proposed for sale, are available during normal business hours at the BLM Carson City District Office.

No warranty of any kind, expressed or implied, is given by the United States as to the title, physical condition, or potential uses of the parcel of land proposed for sale, and the conveyance of any such parcel will not be on a contingency basis. It is the buyer's responsibility to be aware of all applicable Federal, State, or local government laws, regulations, or policies that may affect the subject lands or its future uses. It is also the buyer's responsibility to be aware of existing or prospective uses of nearby properties. Any land lacking access from a public road and highway will be conveyed as such, and future access acquisition will be the responsibility of the buyer.

Federal law requires that bidders must be

(1) United States citizens 18 years of age or older;

(2) A corporation subject to the laws of any State or of the United States;

(3) An entity including, but not limited to, associations or partnerships capable of acquiring and owning real

property, or interests therein, under the laws of the State of Nevada; or

(4) A State, State instrumentality, or political subdivision authorized to acquire and own real property.

U.S. citizenship is evidenced by presenting a birth certificate, passport, or naturalization papers. Certification of bidder qualification must accompany the deposit.

Only written comments submitted by postal service or overnight mail will be considered properly filed. Electronic mail, facsimile or telephone comments will not be considered as properly filed.

Before including your address, phone number, e-mail address, or other personal identifying information in your comment, you should be aware that your entire comment—including your personal identifying information—may be made publicly available at any time. While you can ask us in your comment to withhold your personal identifying information from public review, we cannot guarantee that we will be able to do so.

Any adverse comments regarding the proposed sale will be reviewed by the BLM Nevada State Director, who may sustain, vacate, or modify this realty action. In the absence of any adverse comments, this realty action will become the final determination of the Department of the Interior.

(Authority: 43 CFR 2711)

Linda J. Kelly,

Field Manager, Sierra Front Field Office.

[FR Doc. E9-28721 Filed 11-30-09; 8:45 am]

BILLING CODE 4310-HC-P

INTERNATIONAL TRADE COMMISSION

[Inv. No. 332-509]

Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms

AGENCY: United States International Trade Commission.

ACTION: Institution of investigation and scheduling of hearing.

SUMMARY: Following receipt of a request on October 6, 2009, from the United States Trade Representative (USTR) under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)), the Commission instituted investigation No. 332-509, *Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms*, for the purpose of preparing the

second in a series of three reports requested by the USTR relating to small and medium-sized enterprises.

DATES:

January 26, 2010: Deadline for filing requests to appear at the public hearing.

January 28, 2010: Deadline for filing pre-hearing briefs and statements.

February 9, 2010: Public hearing (Washington, DC).

February 23, 2010: Deadline for filing post-hearing briefs and statements.

March 26, 2010: Deadline for filing written submissions.

July 6, 2010: Transmittal of Commission report to the USTR.

ADDRESSES: All Commission offices, including the Commission's hearing rooms, are located in the United States International Trade Commission Building, 500 E Street, SW., Washington, DC. All written submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://www.usitc.gov/secretary/edis.htm>.

FOR FURTHER INFORMATION CONTACT:

Project Leaders Laura Bloodgood (202-708-4726 or laura.bloodgood@usitc.gov) or Justino De La Cruz (202-205-3252 or justino.delacruz@usitc.gov) for information specific to this investigation. For information on the legal aspects of this investigation, contact William Gearhart of the Commission's Office of the General Counsel (202-205-3091 or william.gearhart@usitc.gov). The media should contact Margaret O'Laughlin, Office of External Relations (202-205-1819 or margaret.olaughlin@usitc.gov). Hearing-impaired individuals may obtain information on this matter by contacting the Commission's TDD terminal at 202-205-1810. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>). Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

Background: In his letter the USTR requested that the Commission provide three reports during the next 12 months relating to small and medium-sized enterprises (SMEs). In this notice the Commission is instituting the second of three investigations under section 332(g) for the purpose of preparing the second report, which is to be transmitted to the USTR by July 6, 2010. The Commission published notice of institution of the

first investigation, investigation No. 332-508, in the **Federal Register** of October 28, 2009 (74 FR 55581). As requested, in the second report (investigation No. 332-509) the Commission will:

(1) Assist in analyzing the performance of U.S. SME firms in exporting compared to SMEs exporting in other leading economies. As one way of comparing the performance of U.S. SMEs to those in other countries, the Commission will compare the exporting activity of SMEs in the United States and the European Union (EU), and analyze the distinctions between U.S. and EU firms in terms of sectoral composition, firm characteristics, and exporting behavior.

(2) Identify barriers to exporting noted by U.S. SMEs and strategies used by SMEs to overcome special constraints and reduce trade costs.

(3) Identify the benefits to SMEs from increased export opportunities, including free trade agreements and other trading arrangements.

To best aid the Commission in gathering information for the report, the Commission is seeking information in response to the following questions:

- What are the most significant constraints that U.S. SMEs face in their efforts to export?
- If SMEs have been successful in overcoming those constraints, what strategies have they adopted?
- What particular benefits do SMEs believe they have received from increased export opportunities including those from free trade agreements and other trading arrangements; which trade agreements or other arrangements have been most beneficial?

The USTR requested that the Commission deliver the second report by July 6, 2010. The Commission shortly expects to institute a third investigation, investigation No. 332-510, *Small and Medium-Sized Enterprises:*

Characteristics and Performance, for the purpose of preparing the third report. In that report the Commission will, among other things, examine U.S. SMEs engaged in providing services, including the characteristics of firms that produce tradable services, growth in services exports, and the differences between SME and large services exporters. It will also examine U.S. goods and services exports by SMEs and identify trade barriers that may disproportionately affect SME export performance, as well as possible linkages between exporting and SME performance. In addition, the report will identify how data gaps might be overcome to enhance our understanding of SMEs in service sector

exports. The USTR requested that the Commission transmit this third report by October 6, 2010.

Public Hearing: The Commission will hold a joint public hearing in connection with this investigation and investigation No. 332-510 at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC, beginning at 9:30 a.m. on Wednesday, February 9, 2010 (and continuing on February 10, 2010, if needed). Requests to appear at the public hearing should be filed with the Secretary no later than 5:15 p.m., January 26, 2010, in accordance with the requirements in the "Submissions" section below. Persons wishing to appear should indicate in their request to appear whether they plan to provide testimony with respect to investigation No. 332-509, investigation No. 332-510, or both investigations. All pre-hearing briefs and statements should be filed not later than 5:15 p.m., January 28, 2010; and all post-hearing briefs and statements responding to matters raised at the hearing should be filed not later than 5:15 p.m., February 23, 2010. In the event that, as of the close of business on January 26, 2010, no witnesses are scheduled to appear at the hearing, the hearing will be canceled. Any person interested in attending the hearing as an observer or non-participant may call the Office of the Secretary (202-205-2000) after January 26, 2010, for information concerning whether the hearing will be held. The Commission is also considering holding additional hearings in Portland, Oregon and St. Louis, Missouri. Notice of the time, date, and place of those hearings would be published at a later date.

Written Submissions: In lieu of or in addition to participating in the hearing, interested parties are invited to file written submissions concerning this investigation. All written submissions should be addressed to the Secretary, and all such submissions (other than pre- and post-hearing briefs and statements) should be received not later than 5:15 p.m., March 26, 2010. All written submissions must conform with the provisions of section 201.8 of the Commission's Rules of Practice and Procedure (19 CFR 201.8). Section 201.8 requires that a signed original (or a copy so designated) and fourteen (14) copies of each document be filed. In the event that confidential treatment of a document is requested, at least four (4) additional copies must be filed, in which the confidential information must be deleted (see the following paragraph for further information regarding confidential business information). The Commission's rules

authorize filing submissions with the Secretary by facsimile or electronic means only to the extent permitted by section 201.8 of the rules (see Handbook for Electronic Filing Procedures, http://www.usitc.gov/secretary/fed_reg_notices/rules/documents/handbook_on_electronic_filing.pdf). Persons with questions regarding electronic filing should contact the Office of the Secretary (202–205–2000).

Any submissions that contain confidential business information must also conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages be clearly marked as to whether they are the "confidential" or "non-confidential" version, and that the confidential business information be clearly identified by means of brackets. All written submissions, except for confidential business information, will be made available for inspection by interested parties.

In his request letter, the USTR stated that his office intends to make the Commission's reports available to the public in their entirety, and asked that the Commission not include any confidential business information or national security classified information in the reports that the Commission transmits to his office. Any confidential business information received by the Commission in this investigation and used in preparing this report will not be published in a manner that would reveal the operations of the firm supplying the information.

By order of the Commission.

Issued: November 25, 2009.

William R. Bishop,

Acting Secretary to the Commission.

[FR Doc. E9–28764 Filed 11–30–09; 8:45 am]

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INTERNATIONAL TRADE COMMISSION

[Investigation No. 337–TA–644]

In the Matter of Certain Composite Wear Components and Products Containing Same; Notice of Issuance of Limited Exclusion Order and Cease and Desist Order; Termination of Investigation

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: The United States International Trade Commission hereby

provides notice that it has determined to issue a limited exclusion order and cease and desist order and terminate the investigation.

FOR FURTHER INFORMATION CONTACT: Michael K. Haldenstein, Office of the General Counsel, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436, telephone (202) 205–3041. Copies of non-confidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436, telephone (202) 205–2000. General information concerning the Commission may also be obtained by accessing its Internet server at <http://www.usitc.gov>. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205–1810.

SUPPLEMENTARY INFORMATION: This investigation was instituted on April 25, 2008, based on a complaint filed by Magotteaux International S/A and Magotteaux, Inc. (collectively, "Magotteaux"). The complaint, as supplemented, alleged violations of section 337 of the Tariff Act of 1930 (19 U.S.C. 1337) in the importation into the United States, the sale for importation, and the sale within the United States after importation of certain composite wear components and products containing the same that infringe claims 12–13 and 16–21 of U.S. Patent No. RE 39,998 ("the '998 patent"). The complaint named Fonderie Acciaierie Rioale S.P.A. ("FAR"), AIA Engineering Ltd., and Vega Industries (collectively, "AIAE Respondents") as respondents. FAR was subsequently terminated from the investigation on the basis of a settlement agreement, leaving the AIAE Respondents as the only remaining respondents.

On May 8, 2009, the ALJ issued an ID finding the AIAE Respondents in default pursuant to Commission Rules 210.16(a)(2) and 210.17, 19 CFR 210.16(a)(2) and 210.17. On July 7, 2009, the Commission determined not to review the ID and indicated that, in addition to the ALJ's finding of violation pursuant to Rule 210.17, the Commission presumes the facts alleged in the complaint to be true with respect to the AIAE Respondents. The Commission also determined to waive Commission Rule 210.42(a)(ii), which,

unless the Commission orders otherwise, requires that the ALJ issue a recommended determination on remedy and bonding in conjunction with any final initial determination concerning violation of section 337. The Commission encouraged the parties to the investigation, interested government agencies, and any other interested parties to file written submissions on the issues of remedy, the public interest, and bonding. The parties to the investigation and the IA filed submissions and response submissions concerning remedy, the public interest, and bonding on July 22, 2009, and July 30, 2009, respectively. No other parties filed submissions.

Having examined the record in this investigation, including the submissions on remedy, the public interest, and bonding and responses thereto, the Commission has determined that the appropriate form of relief is a limited exclusion order and a cease and desist order.

The limited exclusion order prohibits the unlicensed entry for consumption of composite wear components and products containing same that are covered by one or more of claims 12–13 and 16–21 of the '998 patent and that are manufactured abroad by or on behalf of, or are imported by or on behalf of, AIA Engineering Limited or Vega Industries or any of their affiliated companies, parents, subsidiaries, or other related business entities, or their successors or assigns.

The cease and desist order covers products that infringe claims 12–13 and 16–21 of the '998 patent and is directed to defaulting domestic respondent Vega Industries and any of its principals, stockholders, officers, directors, employees, agents, licensees, distributors, controlled (whether by stock ownership or otherwise) and majority owned business entities, successors, and assigns.

The Commission has also determined that the public interest factors enumerated in 19 U.S.C. 1337(d) and (f) do not preclude issuance of the aforementioned remedial orders, and that the bond during the Presidential period of review shall be set at 100 percent of the entered value for any covered composite wear components and products containing same.

The authority for the Commission's determinations is contained in section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), and in sections 210.49–210.50 of the Commission's Rules of Practice and Procedure (19 CFR 210.49–210.50).

By order of the Commission.

maximum of five minutes. If reasonable accommodation is required, please contact the BLM's Prineville District at (541) 416-6889 as soon as possible.

FOR FURTHER INFORMATION CONTACT: Christina Lilienthal, Public Affairs Specialist, 3050 NE Third, Prineville, OR 97754, (541) 416-6889 or e-mail: christina_lilienthal@blm.gov.

Dated: January 29, 2010.

Deborah J. Henderson-Norton,

District Manager, Prineville District Office.

[FR Doc. 2010-2426 Filed 2-3-10; 8:45 am]

BILLING CODE 4310-33-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 337-TA-665]

In the Matter of: Certain Semiconductor Integrated Circuits and Products Containing Same; Notice of Commission Determination To Review in Part a Final Initial Determination Finding No Violation of Section 337 and on Review To Take No Position on One Issue; Termination of the Investigation With a Finding of No Violation

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission has determined to review in part the final initial determination ("ID") issued by the presiding administrative law judge ("ALJ") on October 14, 2009, finding no violation of section 337 of the Tariff Act of 1930, 19 U.S.C. 1337, in this investigation. On review, the Commission has determined to take no position on one issue, and to terminate this investigation with a finding of no violation.

FOR FURTHER INFORMATION CONTACT: Sidney A. Rosenzweig, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436, telephone (202) 708-2532. Copies of non-confidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436, telephone (202) 205-2000. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>). The public record for this investigation may be viewed on the Commission's

electronic docket (EDIS) at <http://edis.usitc.gov>. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205-1810.

SUPPLEMENTARY INFORMATION: The Commission instituted Inv. No. 337-TA-665 on December 24, 2008, based on a complaint filed by Qimonda AG of Munich, Germany ("Qimonda"). 73 FR 79165 (Dec. 24, 2008). The complaint alleged a violation of section 337 in the importation, sale for importation, and sale within the United States after importation of certain semiconductor integrated circuits and products containing same by reason of infringement of various claims of U.S. Patent Nos. 5,213,670 ("the '670 patent"); 5,646,434 ("the '434 patent"); 5,851,899 ("the '899 patent"); 6,495,918 ("the '918 patent"); 6,593,240 ("the '240 patent"); 6,714,055 ("the '055 patent"); and 6,103,456 ("the '456 patent"). The complaint further alleged that there exists a domestic industry with respect to each of the asserted patents. The complaint named the following respondents: LSI Corporation of Milpitas, California ("LSI"); Seagate Technology of the Cayman Islands; Seagate Technology (US) Holdings Inc. of Scotts Valley, California; Seagate Memory Products (US) Corporation of Scotts Valley, California; and Seagate (US) LLC of Scotts Valley, California (collectively "Seagate"). Qimonda accuses of infringement certain LSI integrated circuits, as well as certain Seagate hard disk drives that contain the accused LSI integrated circuits.

The ALJ conducted an evidentiary hearing from June 1-9, 2009. Prior to the hearing, Qimonda tacitly withdrew three of the asserted patents: The '055 patent, the '240 patent, and the '456 patent. Qimonda did not present evidence regarding those patents at the hearing, and did not include any analysis of those patents in its post-hearing briefing.

On October 14, 2009, the ALJ issued his final ID. The ID formally withdrew the '055 patent, the '240 patent, and the '456 patent from the investigation. The ALJ found that based on his claim constructions, Qimonda had not demonstrated that it practices any of the patents in suit. Accordingly, the ALJ ruled that an industry does not exist in the United States that exploits any of the four remaining asserted patents, as required by 19 U.S.C. 1337(a)(2). The ALJ ruled that certain LSI products infringe certain claims of the '918 patent, but that no accused products infringe any of the other asserted

patents. The ALJ ruled that all of the asserted claims of the '918 patent, and some of the asserted claims of the '434 patent, are invalid under 35 U.S.C. 102, but that the asserted claims of the '670 and '899 patents are not invalid.

On October 27, 2009, Qimonda filed a petition for review of the ID. Qimonda did not petition for review of the ALJ's finding of no violation of section 337 as to the '670 patent. Thus, only three patents—the '434, '899, and '918 patents—remain in suit. On November 5, 2009, the Respondents and IA filed responses to Qimonda's petition.

Having examined the record of this investigation, including the ALJ's final ID, the petition for review, and the responses thereto, the Commission has determined to review the final ID in part. Specifically, the Commission has determined to review and to take no position on whether U.S. Patent No. 6,424,051 to Shinogi anticipates, under 35 U.S.C. 102, any of the asserted claims of the '918 patent. *See Beloit Corp. v. Valmet Oy*, 742 F.2d 1421, 1422-23 (Fed. Cir. 1984).

The Commission has determined not to review the remainder of the ID. Accordingly, the Commission has terminated this investigation with a finding of no violation.

The authority for the Commission's determination is contained in section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), and in sections 210.42-46 of the Commission's Rules of Practice and Procedure (19 CFR 210.42-46).

By order of the Commission.

Issued: January 29, 2010.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 2010-2319 Filed 2-3-10; 8:45 am]

BILLING CODE 7020-08-P

INTERNATIONAL TRADE COMMISSION

[Inv. No. 332-509; Inv. No. 332-510]

Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms and Small and Medium-Sized Enterprises: Characteristics and Performance

AGENCY: United States International Trade Commission.

ACTION: Notice of time and place of additional public hearings in St. Louis, MO, and Portland, OR, and reaffirming of time and place of Washington, DC hearing.

SUMMARY: The Commission will hold a public hearing on these investigations in St. Louis, MO, beginning at 9:30 a.m. on March 10, 2010 at the Hilton St. Louis at the Ballpark, and in Portland, OR, beginning at 9:30 a.m. on March 12, 2010 at the Holiday Inn Portland Airport. As previously announced, the Commission will also hold a public hearing on these investigations in Courtroom A at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC, beginning at 9:30 a.m. on Tuesday, February 9, 2010 (and continuing on February 10, 2010, if needed).

ADDRESSES: All written correspondence should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. The public record for these investigations may be viewed on the Commission's electronic docket (EDIS) at <http://www.usitc.gov/secretary/edis.htm>.

FOR FURTHER INFORMATION CONTACT: Project Leaders Justino De La Cruz (202-205-3252 or justino.delacruz@usitc.gov) or Laura Bloodgood (202-708-4726 or laura.bloodgood@usitc.gov) for information specific to these investigations. For information on the legal aspects of these investigations, contact William Gearhart of the Commission's Office of the General Counsel (202-205-3091 or william.gearhart@usitc.gov). The media should contact Margaret O'Laughlin, Office of External Relations (202-205-1819 or margaret.olaughlin@usitc.gov). Hearing-impaired individuals may obtain information on this matter by contacting the Commission's TDD terminal at 202-205-1810. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>). Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

Background Information: The hearings relate to the second and third of a series of three investigations that the Commission is conducting under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) at the request of the United States Trade Representative (USTR). The Commission received the request for the investigations on October 6, 2009. The Commission delivered its report to the USTR on the first investigation, No. 332-508, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, on January 12, 2010, and it is available to the public at www.usitc.gov. The

Commission is scheduled to deliver its reports to the USTR on the second and third investigations, investigation No. 332-509, *Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms*, and investigation No. 332-510, *Small and Medium-Sized Enterprises: Characteristics and Performance*, by July 6, 2010, and October 6, 2010, respectively. Notices announcing institution of the three investigations were published in the **Federal Registers** of October 28, 2009 (74 FR 55581); December 1, 2009 (74 FR 62812); and December 11, 2009 (74 F.R. 65787). The second and third notices also announced the Washington, DC hearing and the intent to hold additional hearings in St. Louis, MO and Portland, OR.

Public Hearings: The times and places of the three hearings and deadlines for filing requests to appear and any pre- or post-hearing briefs or statements or summaries of testimony are as follows: *Washington, DC:*

The hearing will be held in Courtroom A at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC, beginning at 9:30 a.m. on Tuesday, February 9, 2010 (and continuing on February 10, 2010, if needed).

January 26, 2010: Deadline for filing requests to appear.

January 28, 2010: Deadline for filing pre-hearing briefs, statements, or summaries of testimony.

February 9, 2010: Public hearing (Washington, DC).

February 10, 2010: Public hearing, second day if needed.

February 23, 2010: Deadline for filing post-hearing briefs or statements.

St. Louis, MO:

The hearing will be held at the Hilton St. Louis at the Ballpark, One South Broadway, St. Louis, MO 63102, beginning at 9:30 a.m. local time on Wednesday, March 10, 2010.

February 24, 2010: Deadline for filing requests to appear.

February 26, 2010: Deadline for filing pre-hearing briefs, statements, or summaries of testimony.

March 10, 2010: Public hearing (St. Louis, MO).

March 26, 2010: Deadline for filing post-hearing briefs or statements.

Portland, OR:

The hearing will be held at the Holiday Inn Portland Airport, 8439 NE Columbia Boulevard, Portland, OR 97220, beginning at 9:30 a.m. local time on Friday, March 12, 2010.

February 26, 2010: Deadline for filing requests to appear.

March 2, 2010: Deadline for filing pre-hearing briefs, statements, or summaries of testimony.

March 12, 2010: Public hearing (Portland, OR).

March 26, 2010: Deadline for filing post-hearing briefs or statements.

The above hearings will be open to the public. Accordingly, persons testifying should not include confidential business information in their testimony. Any person desiring to submit confidential business information to the Commission in these investigations should do so in writing in accordance with the procedures set out in the "Written Submissions" section below.

To assist the Commission in the preparation of the two reports, the Commission is particularly interested in obtaining information and views on the following:

- The most significant constraints that U.S. SMEs face in their efforts to export.
- The strategies that SMEs have adopted to address or overcome those constraints.
- The benefits to SMEs of increased export opportunities from free trade agreements or other trading arrangements.
- The U.S. free trade agreements or other trading arrangements that have been most beneficial to SMEs that export.
- The characteristics of SMEs that export services.
- How exporting affects SME business performance.
- The extent to which U.S. SMEs have global operations.
- How SMEs based in the United States differ in their exporting activities from SMEs based in the European Union and other leading economies.

In the event that as of the close of business on the deadline for filing requests to appear no witnesses have filed requests to appear at a hearing, that hearing will be canceled. Any person interested in attending a hearing as an observer or non-participant may call the Office of the Secretary (202-205-2000) after the deadline for filing requests to appear for information concerning whether that hearing will be held.

Notice of Appearance: Written requests to appear at the Commission hearings must be filed with the Secretary to the Commission in Washington, DC by 5:15 p.m. Eastern Time of the filing deadline for the hearing at which the person wishes to appear. The request, which may be in

the form of a letter and which should be on company or other appropriate stationery, should identify the hearing at which the person wishes to appear, the investigation to which their testimony pertains (it could be both investigations), their name, title, and company or other organizational affiliation (if any), address, telephone number, e-mail address, and industry or main line of business of the company if any they are representing. Requests to appear must be made by post mail or delivered in person (see "ADDRESSES"). The Commission will also accept requests to appear filed by e-mail to SMEhearings@usitc.gov, or through Laura Bloodgood at laura.bloodgood@usitc.gov. The Commission does not accept requests filed by fax.

Pre- and Post-Hearing Briefs And Statements, Summaries: Participants are encouraged to provide a pre-hearing brief or statement or, in lieu thereof, may provide a one-page summary of the testimony they plan to present. Such summaries will be placed in the public record and therefore should not include any confidential business information. Any confidential business information included in a pre-hearing brief or statement should be submitted in accordance with the procedures set forth below under "Written Submissions." Post-hearing briefs and statements would generally be for the purpose of responding to matters raised at the hearing, including questions asked by the Commissioners or testimony presented by other interested parties.

Written Submissions: In lieu of or in addition to participating in the hearing, interested parties are invited to file written submissions concerning these investigations. All written submissions should be addressed to the Secretary to the Commission, and all such submissions (other than pre- and post-hearing statements) should be received not later than 5:15 p.m. Eastern Time, March 26, 2010. One signed original (or a copy so designated) and fourteen (14) copies of each document must be filed. In the event that confidential treatment of a document is requested, at least four (4) additional copies must be filed, in which the confidential information must be deleted (see below for further information regarding confidential business information). Written submissions may be filed by post mail or delivered in person (see ADDRESSES), or filed using the Commission's electronic filing procedure described below.

To use the Commission's electronic filing procedure, filers must first be

registered users of the Commission's Electronic Document Information System (EDIS), accessible from the USITC Web site (<http://www.usitc.gov/secretary/edis.htm>). The Commission's rules for electronic filing are available in its *Handbook on Electronic Filing Procedures* (http://www.usitc.gov/secretary/fed_reg_notices/rules/handbook_on_electronic_filing.pdf). All written submissions must conform with the provisions of section 201.8 of the Commission's Rules of Practice and Procedure (19 CFR 201.8). Persons with questions regarding electronic filing and EDIS should contact the Office of the Secretary (202-205-2000).

Any submissions that contain confidential business information must also conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages be clearly marked as to whether they are the "confidential" or "non-confidential" version, and that the confidential business information be clearly identified by means of brackets. All written submissions, except for confidential business information, will be made available for inspection by interested parties.

In his request letter, the USTR stated that his office intends to make the Commission's reports available to the public in their entirety, and asked that the Commission not include any confidential business information or national security classified information in the reports that the Commission transmits to his office. Any confidential business information received by the Commission in these investigations and used in preparing this report will not be published in a manner that would reveal the operations of the firm supplying the information.

By order of the Commission.

Issued: January 29, 2010.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 2010-2260 Filed 2-3-10; 8:45 am]

BILLING CODE 7020-02-P

DEPARTMENT OF JUSTICE

Notice of Lodging of Modification of Consent Decree Under the Comprehensive Environmental Response, Compensation and Liability Act

Notice is hereby given that on January 28, 2010, a proposed Amended Consent Decree in *United States v. Nassau*

Metals Corporation, Inc., Civil Action No. 3: 96-CV-562, D.J. Ref. 90-11-3-1057A was lodged with the United States District Court for the Middle District of Pennsylvania.

In this action the United States sought reimbursement of response costs incurred in connection with the release or threatened release of hazardous substances at the C&D Recycling Superfund Site, Luzerne County, Pennsylvania (the "Site"). The Consent Decree obligates the Settling Defendant to reimburse \$753,222 of the United States' past response costs paid in connection with the Site, and to pay future response costs to be incurred by the United States at the Site as well.

The Department of Justice will receive for a period of thirty (30) days from the date of this publication comments relating to the Consent Decree. Comments should be addressed to the Assistant Attorney General, Environment and Natural Resources Division, and either e-mailed to pubcomment-ees.enrd@usdoj.gov or mailed to P.O. Box 7611, U.S. Department of Justice, Washington, DC 20044-7611, and should refer to *United States v. Nassau Metals Corporation, Inc.*, Civil Action No. 3: 96-CV-562, D.J. Ref. 90-11-3-1057A.

The Consent Decree may be examined at the Office of the United States Attorney, Middle District of Pennsylvania, 228 Walnut Street, Suite 220, Harrisburg, PA 17154, and at U.S. EPA Region 3. During the public comment period, the Consent Decree may also be examined on the following Department of Justice Web site, http://www.usdoj.gov/enrd/Consent_Decrees.html. A copy of the Consent Decree may also be obtained by mail from the Consent Decree Library, P.O. Box 7611, U.S. Department of Justice, Washington, DC 20044-7611 or by faxing or e-mailing a request to Tonia Fleetwood (tonia.fleetwood@usdoj.gov), fax no. (202) 514-0097, phone confirmation number (202) 514-1547. In requesting a copy from the Consent Decree Library, please enclose a check in the amount of \$3.50 (@ 25 cents per page reproduction cost) payable to the U.S. Treasury or, if by e-mail or fax, forward a check in that amount to the Consent Decree Library at the stated address.

Maureen Katz,

Assistant Chief, Environmental Enforcement Section, Environment and Natural Resources Division.

[FR Doc. 2010-2261 Filed 2-3-10; 8:45 am]

BILLING CODE 4410-15-P

Designated Federal Officer, NAGPRA Review Committee, National Park Service, National NAGPRA Program, 1201 Eye Street, NW., 8th Floor (2253), Washington, DC 20005.

Information about NAGPRA, the Review Committee, and Review Committee meetings is available on the National NAGPRA Program Web site, at <http://www.nps.gov/history/nagpra>. For the Review Committee's meeting procedures, click on "Review Committee," then click on "Procedures." Meeting minutes may be accessed by going to the Web site; then clicking on "Review Committee;" and then clicking on "Meeting Minutes." Approximately fourteen weeks after each Review Committee meeting, the meeting transcript is posted for a limited time on the National NAGPRA Program Web site.

The Review Committee was established in Section 8 of the Native American Graves Protection and Repatriation Act of 1990 (NAGPRA), 25 U.S.C. 3006. Review Committee members are appointed by the Secretary of the Interior. The Review Committee is responsible for monitoring the NAGPRA inventory and identification process; reviewing and making findings related to the identity or cultural affiliation of cultural items, or the return of such items; facilitating the resolution of disputes; compiling an inventory of culturally unidentifiable human remains that are in the possession or control of each Federal agency and museum, and recommending specific actions for developing a process for disposition of such human remains; consulting with Indian tribes and Native Hawaiian organizations and museums on matters affecting such tribes or organizations lying within the scope of work of the Committee; consulting with the Secretary of the Interior on the development of regulations to carry out NAGPRA; and making recommendations regarding future care of repatriated cultural items. The Review Committee's work is carried out during the course of meetings that are open to the public.

Dated: January 14, 2010.

David Tarler,

Designated Federal Officer, Native American Graves Protection and Repatriation Review Committee.

[FR Doc. 2010-3763 Filed 3-1-10; 8:45 am]

BILLING CODE P

INTERNATIONAL TRADE COMMISSION

[Inv. No. 332-509 and Inv. No. 332-510]

Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms and Small and Medium-Sized Enterprises: Characteristics and Performance

AGENCY: United States International Trade Commission.

ACTION: Rescheduling of Washington, DC public hearing.

SUMMARY: The Commission has rescheduled to March 18, 2010, the Washington, DC public hearing in these investigations previously scheduled for February 9-10, 2010. The February 9-10 hearing was cancelled when Federal Government activity was cancelled due to a snow storm.

Persons wishing to appear at the March 18 hearing should file requests to appear, or confirm earlier requests to appear, in accordance with the procedures below. The dates and procedures relating to hearings in these investigations in St. Louis, MO, on March 10, 2010, and Portland, OR, on March 12, 2010, remain the same as previously announced.

DATES:

March 8, 2010: Deadline for filing requests to appear at the Washington hearing.

March 10, 2010: Deadline for filing pre-hearing briefs, statements, or summaries, Washington hearing.

March 18, 2010, 9:30 am: Washington public hearing.

March 26, 2010: Deadline for filing post-hearing briefs and statements for the Washington hearing.

ADDRESSES: All Commission offices, including the Commission's hearing rooms, are located in the United States International Trade Commission Building, 500 E Street SW., Washington, DC. All written submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://www.usitc.gov/secretary/edis.htm>.

FOR FURTHER INFORMATION CONTACT:

Project Leaders Justino De La Cruz (202-205-3252 or justino.delacruz@usitc.gov) or William Deese (202-205-2626 or william.deese@usitc.gov) for information specific to these investigations. For information on the legal aspects of these investigations,

contact William Gearhart of the Commission's Office of the General Counsel (202-205-3091 or william.gearhart@usitc.gov). The media should contact Margaret O'Laughlin, Office of External Relations (202-205-1819 or margaret.olaughlin@usitc.gov). Hearing-impaired individuals may obtain information on this matter by contacting the Commission's TDD terminal at 202-205-1810. General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>). Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

Background Information: As previously announced, the hearings relate to the second and third of a series of three investigations that the Commission is conducting under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) at the request of the United States Trade Representative (USTR). The Commission delivered its report to the USTR on the first investigation, No. 332-508, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, on January 12, 2010, and it is available to the public at www.usitc.gov. The Commission is scheduled to deliver its reports to the USTR on the second and third investigations, investigation No. 332-509, *Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms*, and investigation No. 332-510, *Small and Medium-Sized Enterprises: Characteristics and Performance*, by July 6, 2010, and October 6, 2010, respectively. Notices announcing institution of the three investigations were published in the **Federal Register** of October 28, 2009 (74 FR 55581); December 1, 2009 (74 FR 62812); and December 11, 2009 (74 FR 65787). A notice announcing the time and place of the hearings in St. Louis, MO and Portland, OR was published in the **Federal Register** of February 4, 2010 (75 FR 5804).

Washington Hearing: The rescheduled Washington hearing will be held in the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC, beginning at 9:30 a.m. on Thursday, March 18, 2010. The hearing will be open to the public. Accordingly, persons testifying should not include confidential business information in their testimony. Any person desiring to submit confidential business information to the Commission in these investigations should do so in

writing in accordance with the procedures set out in the "Written Submissions" section below.

Notice of Appearance: Written requests to appear at the Washington hearing must be filed with the Secretary to the Commission in Washington, DC by 5:15 p.m. March 8, 2010. The request, which may be in the form of a letter and which should be on company or other appropriate stationery, should identify the hearing at which the person wishes to appear, the investigation to which their testimony pertains (it could be both investigations), their name, title, and company or other organizational affiliation (if any), address, telephone number, e-mail address, and industry or main line of business of the company if any they are representing. Requests to appear must be made by post mail or delivered in person (*see ADDRESSES*). The Commission will also accept requests to appear filed by e-mail to SMEhearings@usitc.gov, or through Laura Bloodgood at laura.bloodgood@usitc.gov. The Commission does not accept requests filed by fax. Persons who previously filed requests to appear in connection with the February 9–10 hearing dates should re-confirm their earlier requests to appear or indicate that they will be unable to appear.

Pre- and Post-Hearing Briefs and Statements, Summaries: Participants are encouraged to provide a pre-hearing brief or statement or, in lieu thereof, may provide a one-page summary of the testimony they plan to present. Such summaries will be placed in the public record and therefore should not include any confidential business information. Any confidential business information included in a pre-hearing brief or statement should be submitted in accordance with the procedures set forth below under "Written Submissions." Post-hearing briefs and statements are generally for the purpose of responding to matters raised at the hearing, including questions asked by the Commissioners or testimony presented by other interested parties.

Written Submissions: In lieu of or in addition to participating in the hearing, interested parties are invited to file written submissions concerning these investigations. All written submissions should be addressed to the Secretary to the Commission, and all such submissions (other than pre- and post-hearing statements) should be received not later than 5:15 p.m., March 26, 2010, in investigation No. 332–509 and May 28, 2010, in investigation No. 332–510 as previously announced. One signed original (or a copy so designated) and fourteen (14) copies of each document

must be filed. In the event that confidential treatment of a document is requested, at least four (4) additional copies must be filed, in which the confidential information must be deleted (see below for further information regarding confidential business information). Written submissions may be filed by post mail or delivered in person (*see ADDRESSES*), or filed using the Commission's electronic filing procedure described below. To use the Commission's electronic filing procedure, filers must first be registered users of the Commission's Electronic Document Information System (EDIS), accessible from the USITC Web site (<http://www.usitc.gov/secretary/edis.htm>). The Commission's rules for electronic filing are available in its *Handbook on Electronic Filing Procedures* (http://www.usitc.gov/secretary/fed_reg_notices/rules/handbook_on_electronic_filing.pdf). All written submissions must conform with the provisions of section 201.8 of the Commission's Rules of Practice and Procedure (19 CFR 201.8). Persons with questions regarding electronic filing and EDIS should contact the Office of the Secretary (202–205–2000).

Any submissions that contain confidential business information must also conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages be clearly marked as to whether they are the "confidential" or "non-confidential" version, and that the confidential business information be clearly identified by means of brackets. All written submissions, except for confidential business information, will be made available for inspection by interested parties.

In his request letter, the USTR stated that his office intends to make the Commission's reports available to the public in their entirety, and asked that the Commission not include any confidential business information or national security classified information in the reports that the Commission transmits to his office. Any confidential business information received by the Commission in these investigations and used in preparing this report will not be published in a manner that would reveal the operations of the firm supplying the information.

By order of the Commission.

Issued: February 24, 2010.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 2010–4264 Filed 3–1–10; 8:45 am]

BILLING CODE 7020–02–P

DEPARTMENT OF JUSTICE

[OMB Number 1190–0006]

Civil Rights Division, Disability Rights Section; Agency Information Collection Activities Under Review

ACTION: 60-Day Notice of Information Collection Under Review: Nondiscrimination on the Basis of Disability in State and Local Government Services (Self-Evaluation).

The Department of Justice, Civil Rights Division, Disability Rights Section, will be submitting the following information collection request to the Office of Management and Budget for review and approval in accordance with the Paperwork Reduction Act of 1995. The information collection extension is published to obtain comments from the public and affected agencies. Comments are encouraged and will be accepted until May 3, 2010. This process is conducted in accordance with 5 CFR 1320.10.

We request written comments and suggestions from the public and affected agencies concerning the extension of a currently approved collection of information. Your comments should address one or more of the following four points:

- (1) Evaluate whether the collection of information is necessary for the proper performance of the function of the agency, including whether the information will have practical utility;
- (2) Evaluate the accuracy of the agency's estimate of the burden of the collection of information;
- (3) Enhance the quality, utility, and clarity of the information to be collected; and
- (4) Minimize the burden of the collection of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology (e.g., permitting electronic submission of responses).

Comments and/or suggestions regarding the item(s) contained in this notice, especially regarding the estimated public burden and associated response time should be directed to John Wodatch (phone number and address listed below). If you have

APPENDIX C

Additional Information on Chapter 2: EU-U.S. SMEs Comparison

TABLE C.1 U.S. government support for SME exporting activities, selected programs

| Federal government | Financial assistance—Loans, insurance, and grants |
|---|--|
| Department of Agriculture (USDA) ^a | <p data-bbox="633 247 1461 336">Foreign Agriculture Service (FAS): The FAS administers the USDA export credit guarantee programs to help U.S. agricultural exporters finance the marketing and distribution of their products abroad. Key programs include:</p> <p data-bbox="633 357 1461 504">Market Access Program: Provides direct cost-share assistance to nonprofit agricultural trade associations that assist U.S. companies in entering and expanding sales in foreign markets and international marketing activities, including trade shows, television commercials, in-store promotions, required package and label changes, and other marketing efforts.</p> <p data-bbox="633 525 1461 714">Financial guarantees/insurance: The Commodity Credit Corporation (CCC) programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees. The Export Credit Guarantee Program focuses on exports of agricultural commodities, and the Facility Guarantee Program focuses on exports of capital goods and services that contribute to U.S. agricultural exports.</p> <p data-bbox="633 735 1461 882">Export incentive programs: The goal of the Export Enhancement Program is to help U.S.-produced agricultural goods compete with products from subsidizing countries. The Dairy Export Incentive Program aims to develop export markets for U.S. dairy products where they are not competitive because of the presence of subsidized products from other countries.</p> |
| Export-Import Bank (Ex-Im Bank) ^b | <p data-bbox="633 903 1461 987">Ex-Im Bank is the official export credit agency of the United States. Ex-Im Bank reported that in FY 2009, 88 percent of its transactions were with SMEs. General export financing programs include:</p> <ul data-bbox="682 997 1461 1501" style="list-style-type: none"><li data-bbox="682 997 1461 1123">• Pre-export financing: Working-capital funds to acquire inventory and finance export-accounts receivables to fulfill export sales orders. Harmonized with SBA export working-capital loan program (see below).<li data-bbox="682 1134 1461 1186">• Export credit insurance: Insurance policies that cover political and commercial risks on export receivables.<li data-bbox="682 1197 1461 1312">• Buyer financing: Loan guarantees and direct loans to provide international buyers with medium- and long-term financing for purchases of capital goods and services produced in the United States.<li data-bbox="682 1323 1461 1407">• Structured and project financing: Guarantees and direct loans to finance U.S. exports for the construction and operation of projects through structured finance transactions.<li data-bbox="682 1417 1461 1501">• Transportation equipment financing: medium- and long-term financing products that can assist U.S. manufacturers in selling transportation equipment to international buyers. |
| Overseas Private Investment Corporation (OPIC) ^c | <p data-bbox="633 1512 1461 1606">OPIC financing provides medium- to long-term funding through direct loans and loan guaranties to eligible investment projects in developing countries and emerging markets. Programs include:</p> <ul data-bbox="682 1617 1461 1816" style="list-style-type: none"><li data-bbox="682 1617 1461 1711">• Small-business financing: Direct loans and loan guaranties for small businesses to facilitate and support an overseas investment by a U.S. business.<li data-bbox="682 1722 1461 1816">• Small-business political risk insurance coverage: Insurance against loss or damage resulting from political violence, expropriation, or the inability to convert local currency. |

TABLE C.1 U.S. institutional support for SME exporting activities—*Continued*

| Federal government | Financial assistance—Loans, insurance, and grants—<i>continued</i> |
|--|---|
| Small Business Administration (SBA) ^d | <p>The SBA is an independent agency of the federal government that was founded to aid, counsel, assist, and protect the interests of small business concerns. SBA's export finance program consists of three specialized loan guarantee programs under which SBA itself does not make loans; instead, it guarantees loans made to small businesses by private and other institutions. Programs include:</p> <ul style="list-style-type: none">• Export Express: Can be used to finance a variety of export-related costs, including market development (for trade shows, translation of product literature), transaction costs, equipment for the production of exports, and standby letters of credit. SBA offers exporters and lenders a streamlined method of obtaining SBA-backed financing for loans and lines of credit up to \$250,000 to develop or expand firms' export markets.• Export Working Capital Loan: Targeted to small businesses that are able to generate export sales but need additional working capital to support these sales. Loans (typically for one year or less) can be structured to support financing for single transactions, export contracts, and lines of credit.• International Trade Loan: Can be used to finance the acquisition, construction, modernization, improvement, or expansion of long-term fixed assets and to refinance loans originally used for these purposes. Loan maturity can be up to 25 years. |
| Trade and Development Agency (TDA) ^e | <p>TDA provides grant funding to U.S. firms for foreign infrastructure-based projects. TDA funds various forms of technical assistance, early investment analysis, training, orientation visits, and business workshops.</p> |
| Federal government | Non-financial assistance—Export-related business support services |
| Department of Agriculture (USDA) ^a | <p>The FAS offers export marketing services to assist new and experienced exporters in finding customers, drawing on resources that include databases of foreign buyers of U.S. agricultural product and of U.S. suppliers. The FAS also provides country research, economic analysis, and technical assistance.</p> <p>Trade promotional events: The FAS overseas offices offer many international promotion opportunities for U.S. exporters, including seminars, hotel and catalog promotions, and support for USDA-endorsed world trade shows.</p> <p>Other assistance: USDA provides funding for State Regional Trade Groups—non profit international trade associations which assist U.S. food and agricultural exporters in entering and expanding sales in foreign markets. For example, services offered by the Western United States Agricultural Trade Association include trade events and activities that target markets around the globe; 50 percent cost reimbursement on international marketing expenses for branded food and agricultural products; and export education seminars and one-on-one meetings with an international marketing consultant. The Southern United States Trade Association (SUSTA) Minority Export Training program gives export training to small to medium-sized minority- and woman-owned agricultural growers and processors that are new to exporting. The training aims to prepare firms for their first exporting experience, to help firms develop an international business plan, and to teach basic exporting techniques.^f</p> |

TABLE C.1 U.S. institutional support for SME exporting activities—*Continued*

| Federal government | Non-financial assistance—Export-related business support services—<i>Continued</i> |
|---|--|
| Department of Commerce (USDOC) ⁹ | <p data-bbox="633 268 1476 331"><i>International Trade Administration (ITA)</i>: Provides export promotion and marketing services, counseling, and information programs for U.S. exporters.</p> <p data-bbox="633 352 1476 468"><i>U.S. Commercial Service (USCS)</i>: Helps U.S. companies, especially SMEs, to increase their international market share and sales through a global network of more than 1,700 trade specialists located in 107 domestic offices and 150 posts in 80 countries.</p> <p data-bbox="633 489 1476 573"><i>Business Information Centers (BICs)</i>: Provide country/regional information through Web- and telephone-based counseling. Several important BICs exist for China, the Middle East and North Africa, and India.</p> <p data-bbox="633 594 1476 741"><i>Trade Information Centers (TICs)</i>: Advise U.S. firms on all U.S. government export programs and guide U.S. firms through the export process. TICs provide market assistance, tariff and customs information, trade leads, assistance with access to U.S. free trade partners, and reference to state and local organizations that provide export assistance.</p> <p data-bbox="633 762 1476 961"><i>U.S. Export Assistance Center (USEAC) Network</i>: A nationwide network joining representatives of ITA, the U.S. Export-Import Bank (described below), and the SBA. USEACS are located in more than 100 cities throughout the United States and serve as one-stop shops that provide SMEs with specialized export marketing and trade finance support. Many USEACs are co-located with other federal, state, and local entities and with private-sector entities to better meet the needs of small exporters.</p> <p data-bbox="633 982 1476 1068"><i>District Export Councils (DECs)</i>: A nationwide network of volunteers who supply expertise to SMEs interested in exporting. DECs work with USEACS and organize events such as trade finance seminars.</p> |

Assistance available from USDOC includes:

- Market research reports, provided at no cost. These cover specific country markets and identify opportunities for generating sales.
- Information and counseling via online access to resources and via personalized counseling.
- Strategy and planning assistance to help firms develop and improve their international business strategy.
- Advertising and promotional events to increase brand awareness and market exposure for U.S. products and services worldwide.
- Market entry and expansion assistance to help firms find and establish relationships with potential overseas business partners.
- International Buyer Program: Attracts qualified foreign buyers and sales representatives to U.S. trade shows.
- Trade Fair Certification: A cooperative partnership arrangement between private-sector trade show organizers and the U.S. government to increase U.S. exports and expand U.S. participation in foreign trade shows. Once an event is certified, participating U.S. exporters can receive USCS export assistance services. No federal financial assistance is provided, although some states may have programs to provide financial assistance to U.S. firms.
- Trade missions (and virtual trade missions by teleconference): USCS leads trade missions to foreign countries to promote U.S. exports and increase U.S. job opportunities. Trade missions are fee-based; virtual trade missions are typically offered at no cost.
- Other export-related assistance is available through the Service Corps of Retired Executives and the Minority Business Development Agency.

TABLE C.1 U.S. institutional support for SME exporting activities—*Continued*

| Federal government | Non-financial assistance—Export-related business support services— <i>Continued</i> |
|---|--|
| USDOC— <i>Continued</i> | <p>Standardized and customized services (fee based) include:</p> <ul style="list-style-type: none">• Gold Key Service: Assistance for U.S. exporters, including help identifying markets and potential customers, launching products, and working with regulatory or technical standards matters.• International company profile reports and international partner search.• “Featured U.S. Exporter” directory listing on USCS websites worldwide.• Customized services (Platinum Key Service) provides single company promotion, trade missions, and customized market research. |
| Department of State (USDOS) ^h | <p>USDOS country desk officers are available to provide country-specific information from both the United States and abroad through U.S. embassies and consulates.</p> <p>The Office of Commercial and Business Affairs works with other U.S. government trade promotion providers and the U.S. embassies around the world to support U.S. business by providing commercial information and identifying market opportunities for U.S. firms and advocating on their behalf.</p> <p>The Business Visa Center works to facilitate visa application procedures for U.S. companies and their business partners and customers.</p> |
| Small Business Administration (SBA) ^d | <p>SBA Office of International Trade: This office works in cooperation with other federal agencies and public- and private-sector groups to encourage small business exports and to assist small businesses seeking to export. Through the USEACs, SBA district offices and other service-provider partners, SBA directs and coordinates export initiatives that encourage small businesses in going global.</p> <p>Small Business Development Centers: Located throughout the United States to provide technical and export assistance, particularly to SMEs that are new to exporting.</p> <p>Trade Mission Online: A searchable database of U.S. small businesses looking to export, for use by foreign SMEs and by other U.S. firms looking for U.S. partners or suppliers.</p> |
| Trade and Development Agency (USTDA) ^e | <p>USTDA organizes conferences and orientation visits to provide U.S. exporters with the opportunity to meet with key foreign decision makers. It publishes electronic and hard-copy market information to assist U.S. firms looking for export opportunities. USTDA also organizes workshops, conferences, and symposia worldwide.</p> |

TABLE C.1 U.S. institutional support for SME exporting activities—*Continued*

| Federal government | Non-Financial assistance—Export-related business support services—<i>Continued</i> |
|--|--|
| Regional, state, and local government | Financial and non-financial assistance |
| U.S. Export Assistance Centers (USEACs) ⁱ | A national network of USDOC, Ex-Im Bank, and SBA offices. USEACs located in major metropolitan areas throughout the United States, often collocated with state export promotion offices. USEACs are one-stop shops that provide small- or medium-sized business with local, personalized export assistance. |
| State and local governments | As discussed in chapter 2, many states and cities also maintain their own domestic and foreign trade offices to support SME exporting activities. Services offered vary by state, but typically include some form of export counseling; market research; market entry strategy development; product and pricing information; searches for agents and distributors; foreign company background checks; foreign trade missions; trade shows; and training programs and seminars. |

Sources: The primary sources consulted for the information on U.S. federal programs were USDOC, ITA, *Export Programs Guide*, 2009, and GAO, *Export Promotion*, March 2009. Additional information is available from the agency websites cited below.

Note: This table is not a comprehensive catalog of U.S. government export promotion programs. Please consult the referenced sources and Web sites for more complete information.

^a USDA, FAS, "Selling U.S. Products," (accessed May 27, 2010).

^b Ex-Im Bank, "U.S. Exporters," (accessed May 27, 2010).

^c OPIC, "Small Business Assistance," (accessed May 27, 2010).

^d SBA, "Export Finance Programs," (accessed May 27, 2010).

^e USTDA, "U.S. Businesses—Getting Started: U.S. Exporters," (accessed May 26, 2010).

^f Southern United States Trade Association website, (accessed May 27, 2010); Western United States Agricultural Trade Association website, (accessed May 27, 2010).

^g USDOC, ITA, "Our Services," (accessed May 26, 2010); USCS, "U.S. Commercial Service Assistance," (accessed May 27, 2010); USDOC, "The International Buyer Program," (accessed May 27, 2010); USDOC, "Trade Fair Certification," (accessed May 25, 2010).

^h USDOS, "Doing Business Abroad," (accessed May 27, 2010); and "Doing Business in International Markets," (accessed May 27, 2010); "Business Visa Center," (accessed May 25, 2010).

ⁱ USDOC, "EAC," (accessed May 25, 2010).

TABLE C.2 EC institutional support for SME exporting activities, selected programs

Direct financial assistance: These are programs in which the EC acts as the starting point in the chain of risk sharing in SME lending. No direct EC funding is provided. Instead, support is provided through national or regional banks, credit institutions, or investment funds located in the SME home country, which combine their own products and services with EC funding. Programs are managed at the national or regional/local level. A key goal is to increase the volume of credit available to SMEs and to encourage these financial intermediaries to develop and expand their SME lending capacity.^a

| | |
|--|---|
| European Investment Fund (EIF) | The EIF is a specialized EU financial body for SMEs. It is a “fund of funds” that invests in venture capital, private equity, and mid-market funds, to improve the availability of risk finance to high-growth and innovative SMEs. ^b |
| European Investment Bank (EIB) | The EIB is the long-term lending bank of the EU. It works to further EU objectives by making long-term finance available for investment projects through loans, technical assistance, guarantees, and venture capital. Loans are provided through intermediaries such as commercial banks. Targeted at investments by SMEs as well as at providing SME working capital for projects lasting between 2 and 12 years, with maximum amount of €12.5 million (\$15.32 million) per loan. ^c |
| Competitiveness and Innovation Framework Program (CIP) | CIP financial instruments target SMEs in different phases of their life cycle and support investments in technological development, innovation and eco-innovation, technology transfer, and the cross-border expansion of business activities. CIP funds are used to guarantee loans to SMEs provided by a range of financial institutions involved in SME lending to facilitate access to loans and equity finance for SMEs where market gaps have been identified. CIP financial instruments are implemented by the EIF and selected financial institutions. One of the CIP programs is the Enterprise Europe Network, described in more detail below. ^d |

Support for the internationalization of SMEs: The EC provides support for a wide range of programs to support SME exports. A number of these programs do not provide direct funding to SMEs, but are directed at intermediate and/or public authorities.^a

| | |
|--|---|
| Enterprise Europe Network (EEN) | The EEN provides a wide range of business services targeted at SMEs and other entrepreneurs in more than 40 countries (both EU members and non-EU members, including EU candidate countries, members of the European Economic Area, and other participating third countries). The EEN is the largest European business support and innovation network for SMEs. Key goals of the EEN are to provide a one-stop shop to help firms find information on developing and expanding their businesses, overcome legal obstacles, and identify potential business partners. ^e |
| EU Gateway Program | The Gateway Program was designed to help EU SMEs introduce products into the Japanese and Korean markets. The program works in sectors such as health care and medical technologies, construction and building technologies, information and communication technologies, environment and energy-related technologies, interior design, and fashion design. It arranges trade missions and offers financial and logistical support, strategic preparation, and a tailored search for business contacts. |
| European Business and Technology Center (EBTC) India | The EBTC was established as a center for promoting European clean technologies in India. This New Delhi-based center offers a wide range of activities, including information and intelligence services, assisting services, and specific sector activities. The EBTC is co-funded by the EC and the European Association of Chambers of Commerce and Industry (Eurochambres), in partnership with 16 business and research organizations from four sectors (biotechnology, energy, environment, and transport). |

TABLE C.2 EC institutional support for SME exporting activities, selected programs—*Continued*

| | |
|--|--|
| EU-Japan Center for Industrial Co-operation (Japan Center) | Co-sponsored by the EC and the Japanese government, the Japan Center aims to develop trade and partnership between enterprises in Europe and Japan. Its offices in Brussels and Tokyo provide companies with information on markets, cultures, and regulations. The Japan Center also runs management training programs, supports student internships, and organizes trade missions to promote the development of new contacts. |
| China IPR Helpdesk for SMEs (China Helpdesk) | The China Helpdesk was established to provide free information, advice, and training support to European SMEs to protect and enforce their IPR in China. |
| Executive Training Program (ETP) | The ETP provides free training to EU firms seeking to improve their ability to penetrate the Japanese and Korean markets. |
| Events for SMEs | <p>EU SME Week: A campaign to promote entrepreneurship across Europe and to inform entrepreneurs about support available for them at the European, national, and local level. It allows SMEs to discover an array of information, advice, support, and ideas to help them develop their activities. The event is coordinated by the EC, but most of the events and activities are organized by business organizations, support providers, regional and local authorities, and others in the participating countries.</p> <p>EU Finance Day for SMEs: A series of one-day events held in the EU country capitals to spread information about EU financial instruments available to SMEs. Events are organized by the EC and the national financial intermediaries that implement these instruments locally. The goal is to raise awareness about different sources of finance and provide a forum for sharing good practices in helping innovative SMEs get easier access to finance.</p> |

EC legislation and EC departments supporting SME exporting activities

| | |
|--|--|
| Small Business Act for Europe (SBA for Europe) | Adopted in June 2008 SBA for Europe is a set of principles intended to guide the conception and implementation of SME policies both at EU and national level. SBA for Europe is designed to promote the development of a level playing field for SMEs throughout the EU and improve the administrative and legal environment to allow these enterprises to realize their full potential to create jobs and economic growth. Key priorities include reducing the administrative burden for SMEs; improving access to finance; improving access to markets; and promoting entrepreneurship. The SBA for Europe is discussed in greater detail in chapter 2. ^f |
|--|--|

Note: This table is not a comprehensive catalog of EU programs supporting SME exporting activities. For a more complete listing, see EC, Directorate-General for Enterprise and Industry, *European Union Support Programmes for SMEs*, November 2008. Information for this table was obtained from this source unless otherwise cited.

^a EC, Directorate General for Enterprise and Industry, *European Union Support Programmes for SMEs*, November 2008.

^b EIF, *Competitiveness and Innovation Framework Programme 2007–13*, (accessed May 27, 2010).

^c EIB, “Intermediated Loans,” (accessed May 27, 2010).

^d EC, “Competitiveness and Innovation Framework Programme (CIP),” (accessed May 26, 2010)

^e EC, “Enterprise Europe Network,” (accessed May 27, 2010)

^f EC, Directorate General for Enterprise and Industry, “Small and Medium-sized Enterprises (SMEs),” (accessed May 27, 2010).

SMEs in the United States and European Union: Data and Methodology

This appendix describes data and methods underlying the tables 2.2 through 2.6 in chapter 2.

Table 2.2: Estimated Exports and Sales for Manufacturing Firms, by Firm Size, 2005

The OECD Trade by Enterprise Characteristics (TEC) database was used to estimate U.S. SME exports and extra-EU exports by SMEs based in countries in the EU, using a comparable definition for “SME” (see table 2.1).¹ The data were divided by firm size class and are available for 2005, the most recent year for which data are available. The TEC database includes data only for the EU-17 countries.² Table 2.2 shows only firms in manufacturing industries.

U.S. data on sales by firm size for 2002 were obtained from the U.S. Small Business Administration. These data were updated from 2002 to 2005 using U.S. Census data³ on aggregate manufacturing shipments and payroll data by firm size. USITC staff also used the payroll data to adjust the firm size definitions in the United States to match the EU definition of SMEs.⁴ These size adjustments were used to impute U.S. sales for firms with fewer than 250 employees from exports for firms with 100–500 employees. The category of firms with 200–299 employees was divided evenly between SMEs and large firms to estimate payrolls for companies with fewer than 250 employees. Then sales data for each size class were assigned to the employment data according to the cumulative percentage of payrolls within a certain size class.

EU turnover (sales) data for SMEs were obtained from Eurostat.⁵ Data were available by country and size class for all countries in the EU-25⁶ except Malta (i.e., the EU-24 countries). This analysis used 2005 data for sales by firm size and country. However, because the TEC database only provided export data for the EU-17 countries, two linear regressions were used to estimate export data for the seven EU countries outside of the reported EU-17. The first equation related SME exports to SME sales by country; the second related large company exports to large company sales by country. Both regressions had values of R^2 above 0.95. The regression coefficients were applied to the observed Eurostat sales data to estimate SME and large company exports for the seven

¹ The OECD TEC data are from a special pre-release version provided courtesy of OECD to USITC in April 2010. To enable OECD-wide comparability, OECD reclassified EU data to UN classifications using standard tables as agreed upon by the OECD-Eurostat Steering Group on TEC.

² The EU-17 countries in the TEC database are Austria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Slovak Republic, Slovenia, and Sweden.

³ Available at http://www.census.gov/manufacturing/m3/historical_data/histshts/naics/naicsvsp.xls.

⁴ These data divide the firms with employment of between 100 and 499 workers into the following categories 100–149; 150–199; 200–299; 300–399; 400–499.

⁵ Eurostat is the statistical office of the European Union.

⁶ The EU-25 countries are all of the EU member countries as of 2005. They were Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. Bulgaria and Romania are not included, as they acceded to the European Union in 2007 as the 26th and 27th EU members.

remaining countries.⁷ Estimates for these seven countries were added to the EU-17 observations to calculate EU-24 exports by size class. Ranges for the export estimates were derived from 95 percent confidence intervals, assuming each estimate is an independent random variable with a normal standard error distribution. Ranges for the totals of SME and large company exports assumed that the estimates for individual countries were independent of each other; therefore the total variance equals the sum of the individual variances.⁸ In the final step, EU exports were converted from euros into dollars. Ranges for EU-24 totals correspond to EU-17 totals plus 95 percent confidence intervals around the export estimates for the remaining seven countries.

Approximately 6 percent of EU merchandise exports in 2005 could not be assigned to an employment size class of firm.⁹ Such unmatched data are likely to be disproportionately from SMEs, which implies that the exports-to-sales ratio reported for EU SMEs in table 2.2 is likely biased downwards.

U.S. exports are compared to EU exports outside of the European Union. This corresponds both to the idea that the United States and European Union are integrated markets, and to the way in which the EU reports its own data—Eurostat uses the term “exports” to refer specifically to extra-EU exports, while exports within the European Union are known as “dispatches” and captured by a separate data reporting system.

Table 2.3: Estimated Share of Exports by Firm Size and Major Industry, 2005 and Table 2.4: Estimated Exports by Firm Size and Major Industry, 2005

Exports by EU-17 manufacturing firms were calculated as described for table 2.2. Exports by wholesalers were calculated using the same method, but limited to the exports of firms with NACE¹⁰ industrial activity 51, “Wholesale trade and commission trade.” Exports by other firms were calculated as exports by all firms minus exports by manufacturing firms minus exports by wholesalers. The ratios of manufactured goods exports to all goods exports were calculated from the Global Trade Atlas database for 2005.

⁷ The regression was performed on a single cross-section (N = 15). Luxembourg and Cyprus were outliers and thus excluded from the EU-17 sample. The dependent variable was export value, and the independent variable was sales of manufacturers. The equation was run separately for SMEs and large firms. For SMEs, the beta coefficient was 0.087 with standard error 0.005, which translates into a 95 percent confidence interval around the coefficient of 0.076–0.098. For large firms, the beta coefficient was 0.108 with standard error 0.006, which translates into a 95 percent confidence interval of 0.095–0.122.

⁸ Arias, “Variance of the Sum of Two Independent Random Variables,” 1995.

⁹ USITC, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, figure E.1, 2010.

¹⁰ NACE is the acronym (Nomenclature des Activités économiques dans les Communautés Européennes, or General Industrial Classification Economic Activities in the European Communities) used to designate the various statistical classifications of economic activities developed since 1970 by the European Union. For further information, see EC, “NACE Backgrounds,” http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/NACE_backgrounds (accessed May 18, 2010).

Table 2.5: Employment Growth, by Firm Size, United States and European Union, 2002–2006

EU employment data were obtained from the Eurostat Structural Business Statistics database. They are classified according to NACE Rev. 1.1, where manufacturing corresponds to NACE D and wholesale trade corresponds to NACE G51. The employment data presented are for the EU-27 except where noted, and do not include firms without employees. The figures for percent change in employment from 2002 to 2006 do not include countries for which employment data were missing in 2002 or 2006. U.S. employment data were obtained from the SBA Office of Advocacy, based on data provided by the U.S. Census Bureau, Statistics of U.S. Businesses. The data are classified according to the North American Industry Classification System (NAICS) and do not include farms or firms without employees. Data on manufacturing employment are for NAICS 31–33, while data on wholesale trade employment correspond to NAICS 42. Since data were not available specifically for exporting firms, these employment comparisons were done for all manufacturers and wholesalers in a given size class, whether or not they export.

USITC staff adjusted the firm size definitions for U.S. data to provide estimated totals corresponding to the EU definition of SMEs. Employment data with finer size divisions for firms with 100–500 employees were used to impute U.S. employment for firms with fewer than 250 employees and for firms with greater than 250 employees, as described above. The category of firms with employment between 200 and 299 employees was divided evenly between SMEs and large firms.

Table 2.6: Estimated Exports for Manufacturing Sectors, by Firm Size, United States and the European Union, 2005

Table 2.6 was prepared in the same way as table 2.2. Exports were limited to those by manufacturing firms.

Table 2.7: Relative Productivity by Firm Size, United States and European Union (European Union = 1), 2002

Productivity was calculated for the United States and EU as sales per worker within a broad sector and firm size class. EU data on employment and turnover (sales) were obtained from the Eurostat Structural Business Statistics database. U.S. data on employment and receipts (sales) were obtained from the SBA Office of Advocacy. For a more detailed explanation of the data used, see the discussion on table 2.5 above. As in table 2.5, USITC staff adjusted the firm size definitions for U.S. data to provide estimated totals corresponding to the EU definition of SMEs. Values for U.S. employment and receipts were imputed for firms with fewer than 250 employees and for firms with greater than 250 employees. Again, since data were not available specifically for exporting firms, these employment comparisons were done for all manufacturers and wholesalers in a given size class, regardless of whether or not they export.

Labor productivity figures for the EU are based on the EU-27 and were adjusted to dollars using the nominal exchange rate in 2002 of 1.06 euros per dollar and using a calculated purchasing power parity (PPP) exchange rate to take account of price level

differences in each of the EU-27 countries. The PPP exchange rate was calculated as the ratio of GDP (current US\$) to GDP in PPP terms (current international \$) for each of the EU-27 countries using data from the World Bank's World Development Indicators. The resulting exchange rate and PPP-adjusted productivity figures for the European Union were then weighted by each country's share of total sales in its firm type and broad sector. Table 2.7 presents an index of productivity by broad sector and firm size where the EU = 1.

SME Exporters in Italy's Footwear and Leather Industry

Italy very likely has the most SME extra-EU exports among European Union members¹¹—a total of \$83 billion in 2005, of which nearly \$64 billion were by manufacturing firms.¹² SMEs accounted for about 34 percent of EU exports in 2005 (table 2.2), but they accounted for nearly 52 percent of Italy's exports for that year.

Many observers have noted the presence of regional clusters of firms in specific Italian industries dominated by SMEs. In Italy's northeast and central region, growth of manufacturing employment was particularly high from the 1950s through the 1980s, and was led by SMEs.¹³ Industries in these regions are characterized by geographically focused industrial districts featuring clusters or agglomerations of small firms, as are other SME-dominated manufacturing industries. The performance characteristics of these clusters have drawn considerable attention among economists and policymakers, who have often seen them as success stories and have sought to draw general lessons for economic development from them.¹⁴

The productivity advantages of industrial clusters have been recognized since at least the 1890s. In the British context, economist Alfred Marshall identified knowledge spillovers, pools of industry-specific skilled labor, and the presence of specialized equipment makers as key factors.¹⁵ For Italy, industrial districts have been said to feature spatial and sectoral concentration of enterprises; sociocultural ties among local economic agents, creating a common code of behavior; intense vertical and horizontal linkages, based both on market and nonmarket exchanges of goods, services, information, and people; and a network of public and private local institutions supporting the enterprises in the district.¹⁶ These networks of firms are characterized by a high level of technological exchanges between suppliers and final manufacturers, as well as flexibility in satisfying orders of various sizes and responding to shifts in consumer demand. Clusters thus generate sources of comparative advantage at the regional level, sometimes described as "collective efficiency."¹⁷

¹¹ The EU-17 countries in the TEC database are Austria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Italy, Latvia, Lithuania Luxembourg, Poland, Portugal, Slovakia, Slovenia, and Sweden.

¹² Italy's SME exports are the largest of any of the countries for which data were reported in the OECD TEC database of EU-17 countries for 2005. Germany is the largest economy excluded from the TEC database. The Commission's point estimate for exports by Germany's SME manufacturers is \$48 billion, approximately three-quarters of that of Italy.

¹³ Boehma, "Culture of Trust and Regional Development," 1999.

¹⁴ Bianchi, Miller, and Bertini, "The Italian SME Experience and Possible Lessons for Emerging Countries," 1997; Harvie, "SME Clustering and Its Contribution to Regional Development and Competitiveness," 2007.

¹⁵ Marshall, *Principles of Political Economy*, 1919, book 4, Chapter 10.

¹⁶ Rabellotti, "Is There an 'Industrial District' Model? Footwear Districts in Italy and Mexico Compared," 1995.

¹⁷ Schmitz, "Collective Efficiency: Growth Path for Small-Scale Industry," 1995.

The footwear industry is an important part of Italy's leather and leather products industry.¹⁸ Italy's SME exports worldwide by firms in this industry were \$7.5 billion in 2005, making it Italy's third largest exporting sector for manufacturers, after machinery and equipment and chemicals. SMEs accounted for 74 percent of the exports of Italy's leather and leather products firms in 2005. The division of labor in Italy's footwear industry has featured firms producing finished shoes subcontracting labor-intensive operations— producing bottoms, sewing, and, less often, cutting— to local SMEs, gaining advantages of cost reduction, increased flexibility, more certain costs, and greater specialization. As in other Italian industrial districts, specialized skills have been passed from parents to children, providing a process of districtwide skill accumulation, which accumulates in people rather than in firms.¹⁹

As Italian shoes faced increasing competition from producers in Asia and South America in the 1980s, the districts adapted to emphasize export marketing and quality. Italy increasingly specialized in women's shoes for the luxury market in the EU.²⁰ The extent of this specialization has varied across districts. For example, Brenta specializes in top-end women's shoes, while Barletta, in the south of Italy, focuses on cheaper shoes with rubber and plastic parts that compete more directly with Asian producers.²¹ Associated with these shifts is an increasing internationalization of the processing trade in shoe components. Italian makers increasingly source leather uppers from Romania and elsewhere in Eastern Europe and the former Soviet Union, as well as Tunisia.²² At the same time, Italian exports of shoe components to shoemaking districts in Spain have faced increased competition from components originating in India, Portugal, Romania, China, and Mexico.²³

The role of local or national government as a supporting institution for Italian industrial clusters has been much discussed. The belief that supportive local or regional institutions are important for the clusters is often expressed, and there are some examples of Italian formal initiatives in support of SMEs and industrial districts.²⁴ In the case of footwear, however, the role of local government institutions has been described as minimal, with local entrepreneurial associations playing a more important role.²⁵ The high degree of social capital in face-to-face SME networks in a district may also substitute to some extent for the formal coordinating and conflict resolution functions of governments.²⁶

¹⁸ The leather and leather products industry as defined by Eurostat's NACE classification system, also includes tanning and dressing of leather; manufacture of luggage, handbags, and the like; and saddlery.

¹⁹ Rabellotti, "Is There An 'Industrial District' Model? Footwear Districts in Italy and Mexico Compared," 1995, 34–35.

²⁰ Lorentzen, "Footloose Shoes? International Competition and Industrial Districts in the Italian Footwear Industry," 2003.

²¹ Amighini and Roberta Rabellotti, "How Do Italian Footwear Districts Face Globalization?," 2006

²² Lorentzen, "Footloose Shoes? International Competition and Industrial Districts in the Italian Footwear Industry," 29, 2003; Amighini and Rabellotti, "How Do Italian Footwear Districts Face Globalization?" 2006, 492–493.

²³ Belso-Martinez, "Differences in Survival Strategies Among Footwear Industrial Districts: The Role of International Outsourcing," 2006.

²⁴ Bianchi, Miller, and Bertini, "The Italian SME Experience and Some Lessons for Emerging Countries," 1997, discusses Italian financial incentives for SMEs in the 1980s and 1990s. Harvie's, "SME Clustering and Networking and Its Contribution to Regional Development and Competitiveness" reviews a number of studies providing mixed evidence on the effectiveness of government support for SME clusters.

²⁵ Rabellotti, "Is There an Industrial District Model? Footwear Districts in Italy and Mexico Compared," 2005, 36; Rabellotti, "The Internal Heterogeneity of Industrial Districts in Italy, Brazil, and Mexico," 1999.

²⁶ Ron A. Boehma, "Culture of Trust and Regional Development: An Empirical Analysis of the Third Italy," 1999.

The SME-based cluster model of Italian industrial development has undergone significant stresses since 2001. Italian manufacturing experienced zero or declining labor productivity during 1995–2003.²⁷ The market environment has changed: second-generation family members often leave their home districts and the family industry; numerically- controlled machine tools may provide some of the flexibility formerly arising from social networks, and are expensive for SMEs to install; formal relationships of subcontracting are replacing face-to-face relationships, and local political homogeneity is breaking down, which makes it more difficult to establish flexible labor relations based on trust.²⁸ Besides the increasingly global trade relationships described above, strategies of adaptation pursued by districts have included shifting their industry of specialization, often into mechanical products; quality upgrading; incorporation of immigrant and immigrant-owned firms into the districts, including ethnically Chinese firms in Italy; and the increasing importance of medium-sized firms, often organized in business groups.²⁹

²⁷ Daveri and Jona-Lasinio, “Italy’s Decline: Getting the Facts Right,” 2005.

²⁸ Bianchi, “Requiem for the Third Italy? Rise and Fall of a Too-Successful Concept,” 1998. Traditionally, industrial districts tended to be either heavily “red” (Communist) or “white” (Christian Democratic), but they are now more heterogeneous.

²⁹ Rabellotti, Carabelli, and Hirsch, “Italian Industrial Districts on the Move: Where Are They Going?” 1999.

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APPENDIX D
Additional Information on Chapter 5: U.S.
FTAs and Selected Other Trading
Arrangements

U.S. FTAs and Selected Other Trading Agreements

The United States has entered into 11 free trade agreements (FTAs)¹ with 17 countries (table D.1). In general, U.S. FTAs provide comprehensive coverage addressing goods, services, and investment. The focuses of different FTA provisions can be broadly divided into three categories: market access for goods and services, trade facilitation, and the regulatory environment.²

The market access chapters of FTAs normally include commitments on national treatment, tariff reductions, services sector liberalization, and nontariff measure reductions. With respect to goods trade, parties agree to reduce or eliminate their customs duties and to refrain from increasing or imposing new duties, or adopting or maintaining import- or export-related restrictions relating to bilateral trade.

For services trade, provisions normally guarantee national and MFN treatment for providers of the covered services. Trade facilitation provisions of FTAs are designed to ease the movement of goods and provision of services by reducing transaction costs and increasing transparency through specific improvements in customs administration, sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBT), and the rules governing electronic commerce.

The regulatory environment provisions of FTAs cover a broad range of topics, including investment, intellectual property rights (IPR), transparency, and dispute settlement.

Regulatory environment provisions support a trading atmosphere that is more conducive to exporting by both large firms and SMEs. For example, with respect to IPR, FTAs detail provisions governing the protection and enforcement of major forms of intellectual property, which benefit U.S. companies and industries that rely on intellectual property by reducing their losses from infringement and by increasing export and foreign sales opportunities for their products.

In addition to FTAs, the United States has negotiated a number of other trading arrangements, including World Trade Organization (WTO) agreements, mutual recognition agreements (MRAs), bilateral investment treaties (BITs), and trade and investment framework agreements (TIFAs). These trading arrangements are briefly described in box D.1.

The U.S. Chamber of Commerce has produced several reports on the export opportunities and the benefits to U.S. firms of FTAs and other trading arrangements. Table D.2. presents selected industry views collected and reported by the U.S. Chamber of Commerce

¹ This section provides a general overview of FTA objectives and provisions, and is not intended to give a comprehensive account of all U.S. FTAs. Each FTA is different and may not include all of the summarized chapters or provisions. The overview is not intended to represent a specific interpretation of any specific FTA.

² For Commission assessments of economic effects of FTAs on the U.S. economy as a whole and on U.S. industries and consumers, see USITC, *U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects*, 2007; *U.S.-Panama Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*, 2007; *U.S.-Colombia Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects*, 2006; *U.S.-Peru Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects*, 2006; *U.S.-Oman Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects*, 2006; *U.S.-Bahrain Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects*, 2004; *U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects*, 2004; *U.S.-Morocco Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects*, 2004; *U.S.-Australia Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects*, 2004.

TABLE D.1 U.S. Free Trade Agreements

| Agreement | Partner(s) | Year of implementation | Complete duty phase-out |
|--|---|------------------------|-------------------------|
| U.S.-Israel Free Trade Agreement | Israel | 1985 | 1/1/1995 |
| North American Free Trade Agreement | Canada, Mexico | 1994 | 1/1/2008 |
| U.S.-Jordan Free Trade Agreement | Jordan | 2001 | 1/1/2019 |
| U.S.-Singapore Free Trade Agreement | Singapore | 2004 | 1/1/2013 |
| U.S.-Chile Free Trade Agreement | Chile | 2004 | 1/1/2015 |
| U.S.-Australia Free Trade Agreement | Australia | 2005 | 1/1/2022 |
| U.S.-Morocco Free Trade Agreement | Morocco | 2006 | 1/1/2023 |
| U.S.-Dominican Republic-Central America Free Trade Agreement | Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Costa Rica | 2006 ^a | 1/1/2025 |
| U.S.-Bahrain Free Trade Agreement | Bahrain | 2006 | 1/1/2015 |
| U.S.-Oman Free Trade Agreement | Oman | 2009 | 1/1/2018 |
| U.S.-Peru Trade Promotion Agreement | Peru | 2009 | 1/1/2025 |
| U.S.-Colombia Trade Promotion Agreement | Colombia | Pending | n/a |
| U.S.-Panama Trade Promotion Agreement | Panama | Pending | n/a |
| U.S.-Korea Free Trade Agreement | South Korea | Pending | n/a |

Sources: USTR, "Trade Agreements: Free Trade Agreements," (accessed January 5, 2010); Customs and Border Patrol, "Side-by-Side Comparison of Free Trade Agreements and Selected Preferential Trade Legislation Programs," (accessed January 5, 2010).

^a The agreement entered into force in 2006 for El Salvador, Guatemala, Honduras, and Nicaragua; in 2007 for the Dominican Republic; and in 2009 for Costa Rica.

BOX D.1 Other trading arrangements: WTO, MRAs, BITs, and TIFAs

WTO: The United States is one of 153 members of the WTO. The WTO's main function is to clarify trade rules, provide a forum for trade negotiations, and settle trade-related disputes among members.

MRA: The United States is party to approximately 10 MRAs.^a These agreements strive to eliminate the technical barriers to trade between countries by accepting and recognizing the results of evaluations by conformity assessment bodies of partner countries. "These MRAs are government-to-government agreements that help to facilitate trade by promoting acceptance of the results of each party's conformity assessment procedures, reducing the time it takes a product to be placed on the market, reducing the costs associated with placing a product on the market, and increasing transparency of technical regulations, laws, policies, and procedures."^b

BITs: The United States has BITs with approximately 40 countries. The U.S. BIT program aims to protect private investment, to develop market-oriented policies in partner countries, and promote U.S. exports. The basic goals are: (1) to protect investment abroad in countries where investor rights are not already protected through existing agreements; (2) to encourage the adoption of market-oriented domestic policies; and (3) to support the development of international law standards consistent with these objectives.^c

TIFAs: The United States has TIFA agreements with approximately 85 countries. TIFAs "provide strategic frameworks and principles for continuing dialogue on trade and investment issues between the U.S. and other parties to the TIFA."^d TIFAs generally serve as a forum for the United States and partner governments to discuss issues of mutual interest in order to improve cooperation and enhance opportunities for trade and investment.

Nonreciprocal trade agreements under which the United States grants preferential market access to imports of other countries—such as the Africa Growth and Opportunity Act, the Andean Trade Preference Act, and the Caribbean Basin Economic Recovery Act—are not discussed in this report because they are not directed at U.S. exporting activities.

^a USDOC, International Trade Administration, Trade Compliance Center (accessed January 5, 2010).

^b National Institute of Standards and Technology, "Mutual Recognition Agreements (MRAs)" (accessed February 12, 2010).

^c USTR, "Bilateral Investment Treaties" (accessed January 15, 2010).

^d USTR, "Trade & Investment Framework Agreements" (accessed January 15, 2010).

TradeRoots program.³ The citations in the table were categorized by Commission staff to identify SME views on trade opportunities and benefits for the indicated FTAs or markets. While some of the quotes are a few years old, they show the ways U.S. firms were anticipating the benefits of proposed FTAs, many of which have been implemented.

³ According to the U.S. Chamber of Commerce, the TradeRoots program is a “national trade education program dedicated to raising grassroots support and public awareness about the importance of international trade to local communities.” U.S. Chamber of Commerce, “TradeRoots: About Us,” http://ec2-184-73-242-60.compute-1.amazonaws.com/?page_id=2 (accessed June 2, 2010).

TABLE D.2: U.S. SME-identified export opportunities and benefits^a

| FTA or market | Company (location); Industry (product) | Opportunity | Benefit | Source quote |
|--|--|--------------------------|--|---|
| Peru Colombia | A&K Railroad Materials (Houston, TX; Salt Lake City, UT; 350) | Tariff reduction | Increase competitiveness Increase sales | "[Peru] "Sometimes we lose business to companies from other countries that pay zero duty. For example, Canada has trade agreements with Peru that make Canadian products less expensive. Passage of a free trade agreement with Peru will make us more competitive and allow us to sell more U.S. products." [Colombia] "Passage of a free trade agreement with Colombia will make us more competitive and allow us to sell more U.S. products." |
| General | Accelerated Technology (Mobile AL; 180) | General | Expand business Increase market share | "Being able to sell our technologies overseas is an important part of our growth, success, and market share." |
| NAFTA DR-CAFTA Singapore Israel | Accu Tech Plastics (Eau Claire, WI; 31) | Trade facilitation | Expand business Increase regional opportunities | "Free trade agreements are also an important component of the company's success, as doing business in countries like Costa Rica, the Dominican Republic, Israel, and Singapore has been more efficient because of them. Co-Owner Ron Pribyl says 'NAFTA has helped our business because when Mexico succeeds, we succeed. Opening doors in the Western Hemisphere has helped our bottom line and continues to encourage us to grow.'" |
| General Chile | Alabama Instrument and Radio (Fairhope, AL; 55) | General | Reduce costs Expand business | Chile is another target, especially since passage of the U.S.-Chile Free Trade Agreement. Says Guzman, "Our owner is a visionary who believes in taking the company to the next level. The only way we can achieve our goals is to pursue international business. ... These agreements would definitely help our business. Anything that cuts the costs for our foreign airline customers helps them and helps us as well." |
| CAFTA-DR | All American Containers (Miami, FL; 92) | General | Increase export sales Increase market share Open business opportunities | "[P]assage of a free trade agreement with Central America and the Dominican Republic will increase sales and market penetration. "A free trade agreement with this region will spur investment, economic growth, and trade, which, in turn, will bring more jobs. It will smooth the bumps in the road that restrict the flow of goods, thereby creating tremendous business opportunities." |
| CAFTA-DR | ALPS ETC (New York, NY; 34) | Reduce trade barriers | Increase competitiveness Increase export sales Increase employment | "Passage of a free trade agreement with Central America and the Dominican Republic will allow us to be more competitive in our pricing for our customers. That will result in considerable increased revenues and expansion of our employee base in New York. Continuing trade restrictions will diminish our competitive position against products arriving from outside the United States." |
| NAFTA/ Mexico Peru CAFTA-DR | American Overseas Trading Corp (New Orleans, LA; 10-125) | Tariff reduction | Increase market share Increase competitiveness Improve business | "Our market share in other countries, such as Mexico after NAFTA, has grown. Passage of free trade agreement with Peru [and Central America and the Dominican Republic] will allow us to provide vital hearing aids and accessories at more reasonable cost and enable us to increase our staff in the United States to meet sales demand." |
| CAFTA-DR | American Textile Company (Duquesne, PA; 10-100) | Eliminate trade barriers | Increase competitiveness Reduce costs Increase export sales Increase job security | "A free trade agreement with Central America and the Dominican Republic will make our products more price competitive in the marketplace. It will also improve speed to market for products, resulting in cost savings and increased sales. Any increase in sales and profitability will translate into greater job security for our employee base in Pennsylvania." |

See footnote at end of table.

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (product) | Opportunity | Benefit | Source quote |
|-------------------------------------|--|--|--|---|--|
| General | Applied Energy Recovery Systems (Norcross, GA; 15) | Heat pump water Heater technology | Eliminate trade barriers | Increase export sales Increase employment | "Eliminating international trade barriers is important to our company because with fair and open trading, AERS can save energy and money for our global customers and create jobs here in the United States." |
| NAFTA CAFTA Colombia Chile | ATD-American (Philadelphia, PA; 163) Atec Systems (Orlando, FL; 35) | Textile manufacturing Food (purchasing & logistics management services) | General Tariff reduction | General Increase competitiveness Expand business Increase employment | "We believe a free trade agreement with Colombia would be as large a benefit to us as have NAFTA and CAFTA have had for both our furniture and textile businesses." "Given our global advantage in food production and printing, the removal of trade barriers could have an exponential impact by paving the way for greater efficiencies in our company, our clients' companies, our suppliers' companies, and for the end consumer." |
| CAFTA-DR | Atlantis International (Metairie, LA; 6) | Wholesale distributor (petrochemicals) | General | Increase competitiveness Increase export sales Increase employment | "We are having a difficult time competing against countries that can offer better prices because of trade agreements already in place. A free trade agreement with Central America and the Dominican Republic will level the playing field against this competition, increase our export sales, and allow us to add more jobs in Louisiana." |
| General | Automation and Control Technology (Dublin, OH; 26) | Manufacturing | Trade facilitation | Reduce costs Increase competitiveness | "Automation and Control Technology must be able to sell overseas in order to maintain a solid revenue stream. Free trade agreements are important because they tend to reduce the cost of doing business, resulting in a better price position to compete with foreign companies." |
| CAFTA-DR | BearCom Group (Garland, TX; 425) | Wireless communications (two-way radio equipment) | Trade facilitation | Increase export sales Increase profits | "Passage of a free trade agreement with Central America and the Dominican Republic will enable the company to ship more equipment throughout the region with fewer restrictions. "Eliminating trade obstacles in the region will allow us to be a much more agile company. We can provide better service, grow our sales, and increase profitability." |
| Peru | Berner International (New Castle, PA; 60) | Manufacturing (air curtains & fabric duct) | Eliminate trade barriers Increase market access | Increase export sales Increase competitiveness Increase market share Increase profits Increase employment | "Passage of a free trade agreement will put U.S. manufacturers on a more level playing field, allowing us to market our products at more competitive prices and gain market share. In addition to providing new technologies and quality products to customers in the region, growing the international market in a profitable manner will mean Berner can hire more employees and create jobs in Western Pennsylvania." |
| Australia | Bio-Form Nutritionals USA (Point Pleasant, NJ; 7) | Vitamin and nutritional supplements | Tariff reduction | Increase competitiveness (wrt Australian companies) Increase export sales | "Passage of a free trade agreement with Australia will allow us to be more price competitive and will result in a definitive rise in sales. Our workers will benefit as a result." |
| CAFTA-DR | BKI (Simpsonville, SC; 103) | Manufacturing (food service equipment) | Tariff reduction | Increase competitiveness Increase profits | [Cafeta] "A free trade agreement with Central America and the Dominican Republic will have a positive impact because we will be better able to compete with manufacturers from other countries. Lower duties will make our equipment more affordable, thus increasing commerce in the region and profitability overall." [SC] "It is of great value for BKI, a U.S. manufacturer, to have our products distributed in Costa Rica. With the recent passage of CAFTA, we are now better able to compete with manufacturers from other countries. Lower duties make our equipment more affordable, thus increasing commerce in the region and profitability overall." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (product) | Opportunity | Benefit | Source quote |
|------------------|--|--|--|--|--|
| CAFTA-DR | Bolivar Trading Inc. (Miami, FL; 22) | Distribution (service station equipment & convenience store fittings) | Tariff reduction | Open business opportunities Increase export sales Increase employment | "Certainly a free trade agreement with the region will increase our sales. As of today, most of our products are subject to tariffs as high as 20%. Reducing these tariffs will not only make our projects more profitable, it will open the door to new endeavors that we are not currently able to undertake and allow us to create more jobs in the United States." |
| Peru Colombia | Boon Edam Tomsed (Lillington, NC; 120) | Manufacturing (revolving doors, turnstiles, portals, & high-security vehicle barriers) | Tariff reduction Customs facilitation | Increase competitiveness Increase sales Increase regional opportunities | "In order to compete on a level playing field with other regional manufacturers and to meet market demands in Peru [and Colombia], we need an agreement that eliminates the duties and enables us to deliver our products quickly and trouble free." |
| General | Bottoms Associates (Barnesville, GA; 10) | Knit sewing | IPR protection | General | A more equitable international trading environment will further support Bottoms Associates' future export efforts. "With so many companies taking advantage of manufacturing opportunities in Asian countries, it is essential that those countries open their trade barriers to accept U.S. products. It is equally important that those countries protect U.S. products from piracy and illegal use." |
| Chile | Bridges Electric (Heber Springs, AR; 70) | Manufacturing (overhead high-voltage switches) | Tariff reduction Reduce trade barriers | Expand business | "Trade barriers are the biggest deterrent to doing business in Latin America. ... If trade barriers are not removed, we would be forced to abandon our efforts in Latin America and miss a good opportunity to increase our business and add jobs in our facility in Arkansas." |
| NAFTA General | Briggs Plumbing (Charleston, SC; 65) | Plumbing & building products | Tariff reduction | Increase export sales Increase employment | "Canada is a growth market for us, and while NAFTA helps with the export of U.S.-made goods, we face tariffs for some of our products made in South America. With an Americas-wide free trade agreement, we will be much more competitive throughout North America and that will result in additional management positions in the United States." |
| CAFTA-DR | Brightstar Corporation (Miami, FL; 350) | Telecommunications/service provider (Wireless phones & accessories, data & broadband products, & solutions & value added services) | Trade facilitation | Open business opportunities Faster delivery Increase export sales Increase employment | "[A] free trade agreement with Central America and the Dominican Republic will significantly improve opportunities to increase success and customer satisfaction. "Eliminating foreign trade barriers will dramatically cut the lead time for delivering products from the United States, ... allowing us to give our clients better, faster service. Brightstar looks forward to a trade agreement with Central America and the Dominican Republic. We believe that it will have a positive impact on our share of business in the region, and more U.S. jobs will be created as a result." |
| Peru | Bronz-Glow Technologies (St. Augustine, FL; 23) | Manufacturing (corrosion control coatings) | General | Increase export sales Expand business Increase employment | "Last year our sales to this region were in the range of 1%, but we predict our growth to be in the 5%–7% range. That growth will mean adding jobs at our Florida headquarters." |
| Peru | Cannondale Bicycle Corporation (Bethel, CT; 450) | Manufacturing (high-end bicycles and related clothing and accessories) | Eliminate trade barriers Tariff reduction | Increase competitiveness Increase export sales Increase employment | "The elimination of trade barriers will allow us to market our products at more competitive prices. Given an even playing field where our products can be sold at reduced tariff rates, I am confident our sales will soar. That translates into more jobs at our factory in Pennsylvania." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (product) | Opportunity | Benefit | Source quote |
|---------------------------|--|---|---|--|--|
| Mexico/ NAFTA Chile | Capital Services (Albany, NY; 14) | Construction products manufacturing (industrial expansion joints) | Reduce trade barriers | Increase competitiveness (wrt Brazilian & French companies) Increase regional opportunities Increase employment | "Corresponding with the signing of NAFTA, our sales to Mexico have rapidly increased, and our ties in Latin America are growing. ... We see a lot of big government construction and development projects on the horizon in Latin America. More business implies more employment in our company. With an FTA and a stronger presence in Latin America, we could see employment in our company increase 30% by the end of the year." |
| NAFTA CAFTA-DR | Capital Services (Schenectady, NY; 22) | Construction products manufacturing (industrial expansion joints) | Trade facilitation | Increase export sales Increase employment | "There is so much bureaucracy involved with transportation projects that anything to streamline the formula will be welcome. ... With the passage of a free trade agreement with Central America and the Dominican Republic, our sales will increase and we will add new jobs. Given the number of possible construction and development projects in the region, we anticipate employment opportunities growing by as much as 30% in a short time." |
| CAFTA-DR | Carrington Laboratories (Irving, TX; 130) | Biopharmaceuticals | Eliminate trade barriers Trade facilitation | Faster product delivery Expand business Increase employment | "A free trade agreement with Central America and the Dominican Republic will eliminate some six to eight border crossings for Carrington Laboratories in the region, which will enable a more seamless transfer of our raw materials in the region. The current process adds approximately two days to our overall distribution system. The successful passage of the free trade agreement will allow a 30%-35% time-savings. ... Eliminating foreign trade barriers in the region will provide opportunities for further growth, allowing us to create more jobs in the United States to meet demand for our products." |
| Peru | CBH International (Suwanee, GA; 13) | Export management | Eliminate trade barriers Customs facilitation | Increase competitiveness Increase export sales Expand business | "Eliminating trade barriers will allow us to offer more competitive pricing, and our customers will be able to buy more products. That translates into more business for us and for the manufacturers we represent from our Georgia headquarters." |
| CAFTA-DR | Central American Merchandising Corporation (Miami, FL; 4) | Laboratory equipment (centrifuges, microscopes, spectrophotometers, & other laboratory equipment & supplies) | Eliminate trade barriers | Increase competitiveness Increase export sales Increase employment | "Current trade barriers make it difficult for the company to compete with other suppliers in the region. ... The passage of a free trade agreement with Central America and the Dominican Republic would have a profound impact on our business. Eliminating trade barriers will allow small businesses like CAM-CORP to be more competitive and to sell more products. Increased sales will mean more jobs at our Miami headquarters." |
| Chile | Clark Material Handling Co. (Lexington, KY; 100) | Material handling business (industrial forklift trucks) | Tariff reduction | Increase competitiveness (wrt Japanese companies) Increase market share Expand business Increase employment | "We are in a situation where there is strong potential for growth; however, with continuing trade restrictions and Japanese competition, we will remain stagnant." |
| NAFTA | Clean Air America (Rome, GA; 48) | Air filtration | Trade facilitation | Increase export sales Increase business stability Increase job security | "NAFTA made it easier for us to export to Mexico and encouraged us to continue our efforts to expand sales there." ... Clean Air America's international sales have been essential for the company during economic downturns in the United States. |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (product) | Opportunity | Benefit | Source quote |
|----------------------|--|--|--|---|--|
| CAFTA | Coker International (Anderson, SC; 34) | Used textile machinery | Trade facilitation | Open business opportunities Increase export sales | "Central America is still developing its manufacturing potential, and if it's subject to fewer trade regulations, it will allow more trade opportunities for many U.S. companies such as Coker." With the implementation of DR-CAFTA, Coker International will be able to supply new textile companies with the equipment they need as well as whatever support they need. |
| Chile | Columbus Show Case Company (Columbus, OH; 212) | Manufacturing (store fixtures) | General | Increase competitiveness (wrt European companies) Increase export sales Increase business stability | "Exporting diversifies and helps mitigate the risk of cyclical retail buying patterns. It also greatly expands our sales. ... "Our main competitors are in Europe. In the future, we know our industry will be very price sensitive in Latin America. Any trade status advantage a country has over us could be a limiting factor in our growth. We need to be on a level playing field to compete." |
| General | Compass International (Gilbert, SC; 3) | Export management | Tariff reduction Trade facilitation | Increase profits | "International trade could be even more profitable, especially for small businesses, if there was greater uniformity in the standards that products must conform to when they are sold overseas. "Tariffs are a burden, but standards can be even more of a burden in some countries, and U.S. products already have to meet very high standards to be sold domestically. ... We'd really like to see more reciprocity between the United States and other countries in that respect, and I hope that's something that gets taken into account as we negotiate future trade agreements." |
| Chile | Control Chief Corporation (Bradford, PA; 37) | Manufacturing (radio remote controls for mining) | Tariff reduction | Increase competitiveness (wrt European, Canadian, & Asian companies) Increase market share Increase regional opportunities Increase employment | "Trade with Chile is impaired when Control Chief receives "price complaints because of the duty added on to its product. An FTA would eliminate this issue and allow us to compete with European, Canadian, and Asian companies that offer a less expensive product line due to trade agreements they have with Chile. ... With an FTA in place, we expect 15% of our total sales to come from Latin America. We need to do all we can to implement an even playing field. Growth in this area would translate into a lot of benefits at the local level, both in Chile and in Pennsylvania. It would require us to increase employment to meet the demands of sales as well as service operations." |
| Australia | Correct Craft (Orlando, FL; 305) | Boat manufacturer (inboard & v-drive powered recreational ski & wakeboard boats) | Eliminate trade barriers | Increase competitiveness (wrt Australian companies) Increase export sales | "Much of our competition in Australia is with local manufacturers. Eliminating trade barriers will make us more competitive in the marketplace." |
| Peru | Creative Equipment (Buckner, KY; 8) | Textile machinery (measuring, inspecting, and cutting equipment for fabric) | Reduce trade barriers | Expand business Reduce costs Increase employment | "Any reduction in trade barriers will provide us with greater opportunities by reducing the cost of our technology in a market hungry for it. Passage of a free trade agreement with Peru will potentially increase our business by 5%–10%, allowing us to create new jobs here in Kentucky." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (product) | Opportunity | Benefit | Source quote |
|--------------------------------------|--|---|---|--|--|
| Chile | Cytozyme Laboratories (Salt Lake City, UT; 28) | Manufacturing (animal feed supplements, agricultural biotech products, and waste treatment solutions) | Tariff reduction | Increase competitiveness Increase employment | The reduction of import tariffs and duties imposed on U.S. manufactured products through a free trade agreement would enable greater competitive advantages for Cytozyme and would benefit the American people. "Increased foreign business would translate into more jobs for U.S. citizens. Continuing trade restrictions would diminish our comparative position against products arriving from outside the United States." |
| China (WTO) | DH Pacific (Columbus, OH; 2) | Consulting | General | Improve business environment | Decker says that his clients' sales stand to grow considerably when China implements the terms of the U.S.-China WTO agreement. "The agreement minimizes the risk of doing business in China and reduces the uncertainties of working together with joint venture partners." |
| NAFTA CAFTA Australia Chile | Diamond V Mills, Inc. (Cedar Rapids, IA; 120) | Agriculture manufacturing | Reduce trade barriers Trade facilitation | Reduce costs Increase competitiveness | "Trade agreements have lowered the cost of doing business internationally for Diamond V by lowering trade barriers. This helps keep its products competitive in foreign markets. The company is distributing and selling products in more than 40 countries around the world and expects its international sales to grow. 'NAFTA, for example, has allowed our products to move freely and easily across the U.S.-Canada border, and the free trade agreements we have with Australia, Chile, and the CAFTA countries continue to be important markets for us to grow.'" |
| Australia | Digital Juice (Ocala, FL; 25) | Video animation (video animation tools and stock images) | Tariff reduction | Increase export sales Increase competitiveness (wrt Japan & East Asian companies) | "We have to price our products low in order to remain competitive. Reducing or eliminating duties will allow us to garner additional sales while adding to our bottom-line income." |
| China (WTO) | Digital Storage (Lewis Center, OH; 85) | Computer services | Tariff reduction | Increase competitiveness | "If a prospective Chinese partner company is not large enough to have its own distribution network, we can't do business with them. And high tariffs on our products limit our competitiveness. ... Winning significant tariff reductions and the right to distribute its products throughout the China marketplace are major reasons Digital Storage believes the U.S.-China WTO agreement is critical to its future success in China." |
| NAFTA | Dixie Tool Company (Brownsville, TX; 11) | Distributor (Industrial machinery and supplies) | General | Open business opportunities Increase regional opportunities | "NAFTA really opened the door for Dixie Tools to become a dominant force in hemispheric trade. Sixty-five percent of our revenue is generated from selling to the maquiladoras in Mexico. [T]he main reason for Dixie Tool's success in the global market is that his company filled a void in its industry. "We wouldn't have this additional business without NAFTA. Dixie Tool's success is real evidence that trade works for American business and its employees." |
| Australia | DSI Fluids (Tyler, TX; 11) | Manufacturing (biodegradable lubricants & industrial chemicals) | Tariff reduction Reduce trade barriers | Lowered customer costs Increase export sales Increase competitiveness (wrt Asian & European companies) | "When the United States enters into agreements that reduce trade barriers, this lowers our customers' net costs to purchase our products. This translates into greater sales for DSI. That money comes straight to Tyler, Texas, and pays for our employees' salaries. Our local economy enjoys an injection of capital that otherwise would have gone elsewhere." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location); Industry (product) | Opportunity | Benefit | Source quote |
|------------------|--|---|---|--|
| Chile | Dynabrade, Inc. (Clarence, NY; 150) Manufacturing (stationary machinery & power tools) | Tariff reduction | Increase competitiveness (wrt Pacific Rim companies) Increase export sales Increase profits Increase employment stability | "The single most difficult hurdle we face with the development of Chile is the final cost of our product. ... A free trade deal would also allow us to compete with companies from the Pacific Rim, whose labor markets are decidedly less expensive. Any increase in sales and profitability would translate into higher job security for our employee base." |
| CAFTA-DR | Econocaribe Consolidators (Miami, FL; 250) Transportation (ocean & air cargo transportation services) | General | Expand business | "Increasing free trade between the United States and Nicaragua will mean tremendous benefits for people in both markets. As international trade increases, there will be greater demands for international transportation, and the need for our services will grow." |
| Peru Colombia | EL Industries International (Barrington, IL; 3–470) Distributor (environmental equipment for the liquid & solid waste industries) | Eliminate trade barriers | Increase competitiveness (wrt European companies) Increase export sales Increase employment | [Peru] "Passage of a free trade agreement with Peru will allow us to increase sales. Increased exports mean more jobs for us in Illinois and for the many U.S. manufacturers we represent." [Colombia] "Passage of a free trade agreement with Colombia will allow us to maintain and probably increase sales. Increased exports mean more jobs for us and the factories we represent in Florida, Wisconsin, and Illinois." |
| NAFTA | Elk River, Inc. (Cullman, AL; 75) Safety equipment | Trade facilitation | Increase export sales | Clemmons maintains that NAFTA has been a boon to his Canadian trade.... "When you eliminate trade barriers, you make it easier for consumers, for business partners, for everyone." |
| Australia | Elliott Industries (Bossier City, LA; 24) Manufacturing (electrical equipment) | General | Market diversification Increase competitiveness Expand business | "We are seeking a diversified market to help our company grow. Our progress has been slower than we would like. Passage of a free trade agreement with Australia will allow us to compete price-wise with manufacturers in other countries and to expand our business." |
| CAFTA-DR | Environ Products (Smithfield, NC; 100) Manufacturing (petroleum equipment) | Trade facilitation Eliminate trade barriers | Reduce costs | "In order for us to grow our business, we need to have access to these markets. A free trade agreement with this region will eliminate existing barriers, lower costs, and make the process easier for us." |
| CAFTA | Environmental Fabrics (Gaston, SC; 50) Geosynthetic products | General | Increase competitiveness Increase export sales | Exports currently account for about 15% of total sales. But that percentage could go up as a result of recent trade agreements like CAFTA, which, says Dennis Shanklin, one of the company's founders, "make us more competitive in more markets." |
| General | Equity Technologies (Mobile, AL; 56) Business equipment remarketing | Eliminate trade barriers | Reduce costs Increase employment | With the growing emphasis on international trade, Equity Technologies is keenly interested in seeing barriers to free trade eliminated. According to Stanley, "This would help many of these nations get good equipment at a lower cost. What's more, it creates jobs here in Mobile." |
| Australia | Erie Foods International (Erie, IL; 100) Food products (specialty protein ingredients for nutraceutical products, infant formulas, & nutritional bars and drinks) | General | Improve business relationship | "We see no reason to maintain foreign trade barriers, as both of our countries collectively can benefit from finding the best and most efficient ways to work together. In most cases, trade barriers artificially restrict pro-active and creative problem solving. We believe that reducing and eliminating foreign trade barriers will allow the best in both countries to come forward." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (Product) | Opportunity | Benefit | Source quote |
|----------------------|---|--|--|--|--|
| NAFTA | Fehr Foods (Abilene, TX; 200) | Manufacturing (food) | Trade facilitation | Increase export sales Increase market share | Although Fehr has been active in the global marketplace for several years, sales due to exports have increased dramatically in the past 18 months. Fehr believes this increase is the direct result of NAFTA. "It is simply easier to get our products into foreign markets than it was five years ago," Fehr says. "Once the doors are open, we can increase our sales and capture more of the market." |
| Chile | FFE Minerals (Bethlehem, PA; 93) | Manufacturing (mining process equipment) | Tariff reduction Trade facilitation Customs facilitation | Increase competitiveness Increase export sales Expand business Increase employment | "Eliminating duties and other import fees would make us more competitive, thus increasing our sales to Latin America. With modification to the U.S.–Chile trade restrictions, we could compete fairly with other nations. ... With increased opportunities, we could expand our company, which means increasing the number of employees." |
| Peru Colombia | Filtration Technology Company (Houston, TX; 20) | Manufacturing (filtration systems & filter cartridges) | Eliminate trade barriers Customs facilitation | Reduce costs Increase competitiveness Increase export sales Increase regional opportunities | "Eliminating trade barriers and reducing the additional steps necessary to export to Peru will result in lower costs to the end users, making our product pricing more competitive and increasing sales." |
| CAFTA | Flex-C-Ment (Greer, SC; 7) | Decorative concrete | General | Increase regional opportunities | Garrick anticipates that CAFTA's passage will facilitate a Latin American presence as well. "We're not down there yet," he says, "but architects and engineers from Latin America are seeing our products at a trade show in Istanbul." |
| NAFTA CAFTA | Florallife (Walterboro, SC; 65) | Chemicals for floral industry | Trade facilitation | Open business opportunities Increase export sales | "NAFTA has been good for us, and now CAFTA will help too. ... We'd really like to see a trade agreement covering all of South America, because those countries can be very difficult to trade with." |
| NAFTA | Fortis Plastics, LLC (Brownsville, TX; 100) | Plastics | Tariff reduction Trade facilitation | Reduce costs | "Free trade agreement, such as NAFTA, benefits my company twice over. The plastic injection models are not only traded into Mexico to be manufactured, but they reenter the U.S. in the final stage of production as well. This scenario would simply not be feasible without the free trade atmosphere created by NAFTA). Acts that expand NAFTA or create new free trade agreements will cut costs along the supply chain that will eventually save us from additional expenses in Brownsville. Any extensive tariff between the U.S. and Mexico would doubly affect this across the border trade at the cost of profits for Unique Molded Plastics and jobs for the people of Brownsville." |
| General | Frit Industries (Ozark, AL; 35) | Chemical compounds for fertilizer industry | Reduce trade barriers | Increase competitiveness Larger market Increase business stability | "Removal of trade barriers makes us more competitive by lowering the effective cost of Frit's products to its international customers. And that helps everyone." |
| Chile | GAI Consultants (Monroeville, PA; 461) | Engineering consultants (environmental engineering services) | Reduce trade barriers Dispute resolution | Improve business opportunities Increase employment | "Some of the projects we have taken on include dispute resolutions in the mining industry and development of hazardous waste management programs. ... A reduction in trade barriers would help in our teaming with larger firms doing business in the region, and furthermore, increased international trade would translate into more opportunities for employment." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (product) | Opportunity | Benefit | Source quote |
|--|---|---|---|--|---|
| General | Gainco (Gainesville, GA; 43) | Automated weighing solutions | General | Increase competitiveness (wrt European companies) Increase productivity Expand business | Chiarella notes that better trading terms for the United States will give his company a more advantageous edge against some of its European competitors who already have well-established trade agreements in Latin America. "It creates a win-win situation," he explains. "It enables Gainco to increase its competitiveness, productivity, and volume, while allowing our end users a lower initial investment." |
| Peru Colombia | Givens International Drilling Supplies (Corydon, KY; 9) | Manufacturing (drilling equipment & supplies) | Tariff reduction | Expand business Open sales opportunities Increase competitiveness Increase regional opportunities | "Eliminating duties will make us more competitive. All our employees' jobs are dependent upon international trade, and anything that can be done to reduce trade barriers will help our Kentucky-based operations grow." |
| Chile | Global Caribbean (Miami, FL; 10) | Hospitality (amenities & in-bond merchandise) | General | Increase competitiveness Increase export sales | "An FTA would allow us to export more with less restrictions, increase the potential for more clients, offer more opportunities to our employees, and generate more money, which would positively affect our community." |
| Singapore Australia, Chile | Grace Management Group (Spartanburg, SC; 200) | Consumer home fragrance products | Tariff reduction Reduce trade barriers | Open business opportunities Increase competitiveness | Import duties, for example, cut into Grace Management's ability to price its products competitively. ... "The recent FTAs with Chile, Australia, and Singapore have all made our products more competitive. ...In fact, without the U.S.-Chile FTA, I would not be in the position I am in now to have favorable discussions with a wholesale distributor in Chile who will soon begin to offer our products." |
| NAFTA | Hankins Lumber Company (Grenada, MS; 200) | Lumber | General | Open business opportunities | "NAFTA is the reason Hankins Lumber now sells to Mexico. I have been on three trade missions to Mexico thanks to the Mississippi Development Authority and NAFTA. Without this agreement, the doors would not have opened, and we would not be exporting to Mexico." |
| Peru Colombia Central America | Havel's (Cincinnati, OH; 15) | Medical supplies (surgical blades, suture needles, & dental products) | Eliminate trade barriers | Open sales opportunities Increase export sales Increase competitiveness Increase employment | "Eliminating trade barriers will allow us to offer competitively priced products and will open up more business opportunities for us. More business means more jobs here in Ohio." |
| CAFTA | IDEA LLC (North Charleston, SC; 25) | Third-party logistics service provider | General | General | "The market in Central America has stagnated somewhat, because it's losing jobs to China too. If we don't do something, all the manufacturing jobs in the hemisphere will move to Asia. That's why we strongly supported CAFTA...." |
| General | Industrial Test Systems (Rock Hill, SC; 30) | Water quality testing products | Tariff reduction Customs facilitation | Increase export sales Expand business | "Exports create a large percentage of our growth each year and currently comprise almost a third of our total business." ... Citing free trade agreements as one of the key factors that have helped Industrial Test Systems succeed in many foreign markets, she says that tariffs have a real impact on the company's ability to compete in some markets. |
| Singapore | Innovative Gas Systems (Malvern, PA; 28) | Heavy manufacturing (nitrogen membranes) | Tariff reduction | Increase export sales | "A free trade agreement with Singapore would undoubtedly expand our sales to that region. Many decision makers are located in Singapore therefore eliminating trade barriers would remove one less hurdle in our continued relationship with Singapore." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location); employees) | Industry (product) | Opportunity | Benefit | Source quote |
|-------------------|---|---|--|---|--|
| CAFTA-DR | Intetra (Mountain View, CA; 7) | Electronics (electronic components & specialized technology services) | Trade facilitation | Increase competitiveness (wrt European & Asian companies) Faster product delivery Increase employment | "Anything that facilitates growth in American exports will allow us to become more competitive. Right now, we find ourselves competing with European and Asian companies. The two biggest issues are price and the ability to provide the equipment in a timely manner. Passage of a free trade agreement with Central America and the Dominican Republic will remove barriers, allowing our products to be more competitive, thus increasing our sales, which will mean more jobs at our California headquarters." "Once we get into a market, we are very viable. But the cost of getting in is often too high." ...CAFTA's passage is facilitating Intedge's entry into Costa Rica, which Beltram says is a very promising market because it has a growing hotel and food service market. "I'm in favor of all trade agreements," Beltram adds. "They definitely open marketplaces." |
| CAFTA | Intedge Industries (Woodruff, SC; 28) | Food service equipment | General | Open business opportunities | "The high duties add a considerable amount to what is basically a simple item. But in cases where demand on some products is too low to justify licensing a foreign subsidiary to produce them, Integrity has no choice but to export." O'Connor feels that more free trade agreements would help eliminate those tariffs. |
| General | Integrity Media (Mobile, AL; 150) | Music publishing | Tariff reduction | Market entry flexibility | "Passage of a free trade agreement with Central America and the Dominican Republic will allow us to increase sales to the region. Increased sales mean more jobs in Louisiana to meet customer demands." |
| CAFTA-DR | International Export Sales (St. Rose, LA; 4) | Export trading company (supermarket equipment & light industrial refrigeration equipment) | Eliminate trade barriers | Increase export sales Increase employment | |
| Peru | Interphase Technologies (Soquel, CA; 15) | Manufacturing (marine electronics) | Tariff reduction Eliminate trade barriers | Open sales opportunities Increase competitiveness | "We know that there is a strong potential market for our products and have heard from customers that they are frustrated by current tariffs and restrictions. Passage of a free trade agreement will eliminate enormous hurdles currently in place, open up new opportunities, and allow us to competitively market our products." |
| Australia | IP Financials (New York, NY; 1) | Financial services (management consulting & financial advisory services) | Eliminate trade barriers | Open sales opportunities Expand business | "A free trade agreement will provide new avenues for growth. It will not only increase the export of goods but also will result in an increased need for business advisory services. That translates to growth in my business as well as for the start-ups and other customers I serve." |
| General | Irrigation Components International (Daphne, AL; 8) | Irrigation system components | IPR protection Tariff reduction | Increase competitiveness | While free trade agreements cannot protect against currency fluctuations, he recognizes how they lower tariffs and provide patent protections. "Free trade agreements certainly help level the playing field." |
| Chile CAFTA-DR | Irwin Brown Company (New Orleans, LA; 17/22) | Customs brokers/ international freight forwarders | General Trade facilitation | Improve business environment Expand business Faster product delivery | [Chile] "Free trade agreements and globalization are the best defenses against the myopic world view of terrorists. With global economic betterment occasioned by open trading agreements, many in third-world countries are lifted up from grinding poverty, otherwise fertile ground for terrorist recruitment." [CAFTA-DR] "With fewer trade barriers and quicker turnaround times, we can continue to expand our business, resulting in additional job creation in Louisiana." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (product) | Opportunity | Benefit | Source quote |
|----------------------|--|---|---|---|--|
| General NAFTA | Jaderloon Company (Irmo, SC; 39) | Greenhouses & nursery carts | Eliminate trade barriers | Expand business Larger market | "Trade agreements and government financing assistance would allow it to expand overseas business even further. ... "The elimination of foreign trade barriers allows our company to continuously expand our market into countries and industries that were previously unavailable. That's important for our continued growth." |
| General | Kappler, Inc. (Guntersville, AL; 300) | Safety clothing | Tariff reduction | Increase competitiveness Increase employment | "Not having those import duties applied would make our products more competitive. We make a lot of our products right here in Guntersville, so more foreign business would create more jobs." |
| CAFTA-DR | Kaygeco, Inc (Rathdrum, ID; 15) | manufacturing of private label cleaning compounds (pet shampoos & deodorizing products) | General | Open business opportunities Expand business Increase employment | "Passage of a free trade agreement with Central America and the Dominican Republic will open doors to easier trade relations, allowing us to grow our business in the region, which will translate into additional jobs at our Idaho facility." |
| CAFTA-DR | Lafise (Miami, FL; 22) | Financial services | Eliminate trade barriers | Improve business environment Open business opportunities | "By creating a more stable and secure environment in which to trade and invest, a free trade agreement with Central America and the Dominican Republic will stimulate financial growth in the region while passing on greater returns to American investors. The passage of this agreement will herald new business opportunities for LAFISE and other service companies." |
| General | Langdale Industries (Valdosta, GA; 5) | Forest products | General | Increase competitiveness Increase business stability | "Exports help many U.S. forest product companies diversify their customer base and become less dependent on domestic consumption cycles...." |
| General | Life Data Labs (Cherokee, AL; 14) | Animal nutrition | Reduce trade barriers Tariff reduction | General | But he acknowledges that reduced trade barriers have helped his business. "Some of the South American nations charged 100% tariffs. Getting rid of the tariffs certainly helped." |
| General | M.A.S. Exports (Rincon, GA; 7) | Automotive supplies | Reduce trade barriers | Increase competitiveness | "Our company's motto is 'Where economy meets quality,' and lowering trade barriers will further allow us to offer quality products at the right price on the international market." |
| Chile | Madison Sales (New York, NY; 45) | Export services (various manufactured products) | Tariff reduction | Increase export sales Increase employee wages | "Any reduction in tariffs due to an FTA with Chile would allow him to reduce his prices and subsequently increase sales. "Increased sales mean bigger Christmas bonuses for my employees." |
| China (WTO) | Magnetizer Group (Pipersville, PA; 250) | Manufacturing | IPR protection | General | "Our business is growing in China, but we do face certain challenges. Principal among them is our concern about protecting the patent and trademark for our products. With China's pending entry into the World Trade Organization, and the increased leverage we will have in addressing intellectual property protection issues that forum, we think permanent normal trade relations with China is definitely in the best interest of our company and its employees." |
| Chile | Marine Construction and Design Co. (Seattle, WA; 200) | Construction and manufacturing (equipment for fishing vessel construction and hydraulic deck machinery) | General | Increase competitiveness (wrt European & S.E. Asian companies) | A free trade agreement with the United States would, to some extent, help counter the cost advantages of our competitors." Furthermore, Combs says, "The end result would not only benefit MARCO's operations, but also it would benefit the hundreds of small businesses that supply our shipyards and industrial divisions with products from every corner of the United States." |

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TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location); Industry (product) | Opportunity | Benefit | Source quote |
|---------------|--|---|--|---|
| General | Micromeritics Instrument Corporation (Norcross, GA; 200) | Analytical laboratory instruments | Reduce trade barriers | Increase export sales Reduce costs |
| Chile | Nadco, Inc. (Somersworth, NH; 30) | Manufacturing (adhesive & label products) | General | Reduce costs Increase export sales Increase employment |
| Peru | National Enzyme Company (Kansas City, MO; 150) | Dietary supplements (digestive enzyme formulas) | Customs facilitation | Improve business environment Increase export sales |
| CAFTA-DR | Natural Fruit Corporation (Hiialeah, FL; 32) | Food manufacturer (frozen fruit bars & ice cream novelties) | Trade facilitation Eliminate trade barriers | Increase export sales Open business opportunities |
| CAFTA-DR | Nature Plus (Stratford, CT; 10) | Manufacturing (environmentally safe liquid enzyme soil stabilizers for road construction) | Reduce trade barriers | Increase export sales |
| CAFTA-DR | Nature Tours (New Orleans, LA; 3) | Travel and tourism (travel services) | General | Increase export sales |
| Chile | OPICO (Mobile, AL; 10) | Agricultural implements & related equipment | Eliminate trade barriers | Increase competitiveness (wrt Canadian companies) |
| CAFTA-DR | Optibrand (Fort Collins, CO; 14) | Agriculture and food safety (animal identification system) | Eliminate trade barriers | Open business opportunities Increase employment |
| Chile | Oregon Potato Company (Boardman, OR; 195) | Food processing (potato products) | General | Increase competitiveness (wrt European companies) Open business opportunities Increase regional opportunities |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (product) | Opportunity | Benefit | Source quote |
|----------------------|--|---|---|---|--|
| NAFTA Peru | P&S Supply (Houston, TX; 6) | Energy (pipes, valves, fittings, & other industrial materials for the mining, chemical, & petrochemical industries) | General | Opportunity to introduce new products and technologies | "We have benefited a great deal from NAFTA, and a free trade agreement with Peru will have a similar positive impact on our business." |
| Chile | Panalpino (Huntsville, AL; 60) | Logistics services | Reduce trade barriers | Increase export sales | For example, the U.S.-Chile Free Trade Agreement helps Alabamians to export finished automobiles from its growing auto industry to Chile, where a burgeoning economy has created more demand for cars. "It is a win-win for both nations." |
| NAFTA | Paulson Manufacturing (Temecula, CA; 200) | Manufacturing (integrated safety equipment) | General | Increase competitiveness | "Paulson Manufacturing has been selling to Canada for more than 20 years. After passage of NAFTA, the company's products became more competitive in Canada and sales increased. Roy Paulson, CEO, knows that international trade means more than just profits." |
| Chile | Phelps Industries (Little Rock, AR; 50) | Manufacturing (unloading devices for material transport) | Reduce trade barriers Customs facilitation | Improve business environment | "The more trade barriers we can bypass, the better. ... An FTA has the potential to expand market access and minimize the bureaucracy of work permits and trade documents." |
| Australia | Phoenix Process Equipment Company (Louisville, KY; 45) | Manufacturing (environmental & process equipment) | Tariff reduction | Increase competitiveness (wrt European companies) Increase export sales Increase regional opportunities | "Our primary competition in Australia is from the European Community, and eliminating the current import duties will bolster our competitive position. It will also allow us to penetrate new markets in other Pacific Rim countries. All PHOENIX employees' jobs are enhanced and influenced by our ability to increase exports, including those to Australia." |
| Chile | Pier Beach International (Miami, FL; 66) | Export services (electrical equipment) | Tariff reduction Reduce trade barriers | Increase competitiveness (wrt Mexican, Canadian & Mercosur companies) Increase export sales Increase employment | "Until now, trade restrictions have limited our sales of various products like substation switches because products coming from other regions enjoy lower duties, so amended trade restrictions would obviously help us. In addition, a reduction in trade barriers would make the products of our U.S. suppliers more competitive against manufacturers from Mexico, Canada, and the Mercosur countries. This would enable us to increase our sales and corresponding local employment." |
| Chile | Plastic Enterprises Company (Lees Summit, MO; 166) | Manufacturing (thin-walled injection-molded plastic packaging) | Reduce trade barriers | Increase export sales Increase regional opportunities Increase employment | "Exports to South America and Chile are important to our company as a means to support our customers' entrance and expansion into the Latin American market. Improved access to this market for our customers would conceivably provide an additional 10% net revenue growth to our business. Reduction in trade barriers would make our products more accessible to new customers in the region, further expanding our customer base and revenue opportunities. This would provide greater job growth and increase sales necessary to support the growth of the company." |
| NAFTA | Plitt Crane & Rigging (Brownsville, TX; 15) | Mechanical services | General | Increase employment | "NAFTA has provided a tremendous boost to Plitt Crane and Equipment and other small and medium-sized businesses in Texas' Rio Grande Valley. NAFTA works. It has created thousands of new jobs and opportunities. We need other trade deals like it." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (Product) | Opportunity | Benefit | Source quote |
|---------------|---|---|---|---|---|
| General | Prodeu Inc. (Marietta, GA; 14) | Misting & humidification systems | Tariff reduction Customs facilitation Reduce trade barriers | Open sales opportunities Improve business environment | Merchant explains that decreasing duties and taxes, as well as streamlining the customs process, would make it cheaper and easier for his company to export its products abroad. "Customs delays, for instance, can significantly increase the cost of shipping, which discourages international buyers from purchasing American products." |
| CAFTA-DR | Quality Analytical Laboratories (Panama City, FL; 20) | Analytical and research laboratory (laboratory analytical & technical services) | General | Increase export sales Expand business Increase employment | "Passage of a free trade agreement with Central America and the Dominican Republic will allow us to extend our services to a larger market base, improving compliance with environmental requirements in the region. It will also allow us to grow our business, adding jobs at our three laboratories in the United States." |
| General | RCF Technologies (Vidalia, GA; 30) | Aerospace products | Eliminate trade barriers | Increase employment | When asked why eliminating foreign trade barriers is important to her company, Zimnavoda highlights the positive link between exporting and job retention and creation. "Keeping the United States competitive in foreign markets is critical to maintaining a viable and growing workforce in our country." |
| Australia | Redin Corporation (Rockford, IL; 8) | Manufacturing (gear deburring machinery & cutting tools) | Eliminate trade barriers | Increase export sales | "Reducing or eliminating trade barriers will allow us to increase sales in the region and that can only benefit all parties." |
| Peru | Regitar USA (Montgomery, AL; 30) | Automotive parts (automotive electronic components) | Eliminate trade barriers | Expand business Increase competitiveness (wrt Asian companies) Increase export sales Increase employment | "Eliminating existing trade barriers with Peru will allow U.S. companies to compete more effectively with products made in Asia. There is a demand for our product and the increase in sales will mean more jobs here in the United States." |
| General | Regitar USA (Montgomery, AL; 30) | Automotive electronics | Tariff reduction | Increase competitiveness (with respect to Chinese, Taiwanese, Korean companies) | Despite his success, Dr. Tsai has felt the sting of foreign competition—made worse in many cases due to a lack of free trade agreements. "We face major competition from China, Taiwan, and Korea and have lost sales due to foreign tariffs. More free trade agreements would be a big help to us." |
| General | Replica Plastics (Dothan, AL; 15) | Replacement plastic auto body parts | General | Larger market | Blackmon's international trade continues to grow in importance because of what he describes as a diminishing domestic market. "Our overseas sales help keep the doors open. We could do even more, though, if there were more free trade agreements in place." |
| General | Research Technologies (Greenville, SC; 12) | Chemical manufacturing | General | Increase competitiveness | "Free trade agreements make this company's prospects as an exporter even more promising, not just because they create a more cost-competitive environment for American companies, but also because they make it easier for companies like ours to market consumer products effectively overseas." |
| NAFTA | Riverside Pump Manufacturing (Cheraw, SC; 14) | Engine-driven pumps | Trade facilitation | Increase competitiveness | "Trade agreements help reduce that difference, making our products more marketable." For example, Riverside recently supplied a number of pumps to a Canadian company doing water quality research in the Great Lakes. "That was a large order for us," says Rountree, "and it would not have been possible if barriers had interfered." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (Product) | Opportunity | Benefit | Source quote |
|------------------|--|--|---|---|---|
| Chile | Ross Valve Manufacturing (Troy, NY; 60) | Manufacturing (control valves) | Reduce trade barriers Tariff reduction | Increase competitiveness Increase employment | According to Ross, competitive disadvantages caused by trade barriers are “tough because you’re competing with products that cost the same to manufacture but vary in price because of duties. The bottom line is that such barriers keep me from competing on an equal base. Inequalities could eventually lead to a closed shop in Chile and loss of U.S. jobs.” |
| Peru Colombia | Ross Valve Manufacturing Company (Troy, NY; 60) | Manufacturing (automatic control valves for water systems) | Tariff reduction | Increase competitiveness Increase export sales Expand business Increase employment | “Currently, there is a 15% tariff on our products. Reducing or eliminating those tariffs will allow us to offer more competitive prices and increase our sales. We are committed to this market because we know there is a demand for our products. Passage of a free trade agreement with Peru will allow us to grow our business and add jobs here in the United States.” |
| CAFTA-DR | Ryan Trading (Franklin, NJ; 90) | Manufacturing (high speed metal machining) | Trade facilitation | Open business opportunities Increase competitiveness Increase export sales Increase business stability | “Foreign trade barriers make the process more difficult and the products more expensive. A free trade agreement with the region will put our company in a more competitive position and could translate into a 20%–30% increase in our sales during the first three years alone.” |
| Chile | Safe Passage International (Albany, NY; 18) | Technological training (airport security training courses) | Tariff reduction | Increase competitiveness (wrt Israeli & UK companies) Increase employment | “Tariffs make courses artificially and unnecessarily expensive. In addition, the company faces two other competitors, one in Israel and the other in the United Kingdom, and it is unfortunate because we are losing out. ... An increase in international trade would allow us to fund more research and development programs, which would lead to better airline safety. It would also increase staff and create more job opportunities.” |
| CAFTA-DR | Samuel Aaron International (Long Island City, NY; 180) | Manufacturing (fine jewelry) | Reduce trade barriers | Increase export sales | “The reduction of trade barriers will enable our company to increase sales and to continue to reach our targeted growth goals in the region.” |
| CAFTA | SC Solar (Lancaster, SC; 4) | Solar/electrical power, consulting | Tariff reduction | Reduce costs Expand business | The recent passage of CAFTA should boost SC Solar’s growth even further. Without duties, the cost of the company’s goods are lowered by 20%–30%. ... “We’re going to be able to provide a lot of infrastructure needs, such as solar water pumping and remote power in Honduras and other Central American countries.” |
| General | Sentry Production Products (Lakewood, OH; 4) | Manufacturing | Tariff reduction | Increase export sales | “[T]rade agreements would only make our business better. We have had trouble, especially in some South American markets, where import duties really make our products expensive. We still sell products, but the customer can’t afford as many. By eliminating those duties, we know that our business would grow.” |
| CAFTA-DR | Setton International Foods (Terra Bella, CA; 250) | Food products (pistachio nuts & nut products) | Reduce trade barriers | Increase export sales Increase employment | “Passage of a free trade agreement with Central America and the Dominican Republic will mean increased sales. Increased sales mean more jobs at our New York and California facilities to meet demand.” |
| CAFTA-DR | Shore To Shore (Miamisburg, OH; 95) | Printing and packaging (brand packaging) | General | Open business opportunities Increase export sales Increase employment | [A] free trade agreement with Central America and the Dominican Republic will significantly improve sales opportunities in the region. “The passage of this agreement will result in a higher percentage of product demand, which means more U.S. jobs to meet customer needs.” |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location); employees) | Industry (product) | Opportunity | Benefit | Source quote |
|-------------------------------|---|---|--|---|--|
| Australia | Signature Brands (Ocala, FL; 250) | Consumer packaged goods (dessert decorating products) | Eliminate trade barriers | Open sales opportunities Increase export sales Reduce costs | "Eliminating trade barriers with Australia will allow us to export at lower costs, he adds, "which will allow us to introduce more new products and grow our business by increasing our product offerings." |
| Peru Colombia | Singleton Scientific (Houston, TX; 6) | Medical laboratory supplies (medical laboratory equipment & supplies) | Eliminate trade barriers | Increase regional opportunities Expand business Increase employment | "Passage of a free trade agreement will be beneficial to all U.S. businesses, including mine. It will help me grow my business and create more jobs here in Texas." |
| Australia | Sirsi Corporation (Huntsville, AL; 300) | Software development & manufacturing (library automation computer software) | General | Increase competitiveness Increase regional opportunities | "The United States cannot grow to its full economic potential unless trade barriers are reduced. Free trade agreements are vital for small and medium-size businesses to grow and create jobs in the United States." |
| CAFTA | Softex Supreme Diaper Corporation (Decatur, GA; 55) | Diapers | Reduce trade barriers | Increase competitiveness Increase export sales | "Lifting trade barriers allows us to ship our goods to export markets at very competitive prices." ... "In the case of the Central American Free Trade Agreement, I believe business in those countries will skyrocket once this trade agreement takes effect." |
| Chile | Southeastern Metal Products (Charlotte, NC; 94) | Manufacturing (metal-stamped component parts) | Reduce trade barriers | Increase competitiveness Open sales opportunities Increase employment Increase employment stability | A reduction in U.S. trade barriers is seen as a necessary means to make the company more competitive in the growing Latin American market. [S]uch a reduction would open the door to further sales in Latin America. "[T]his growth would not only secure current jobs in the company but also would increase employment." |
| NAFTA | Southern Turf Nurseries (Elberta, AL; 50) | Turf | Eliminate trade barriers Trade facilitation | Increase export sales Improve business environment | "The passage of the North American Free Trade Agreement in 1993 was a boon to our business. Not only did it eliminate some barriers to trade, but it also dramatically reduced the amount of paperwork previously required in order to export." He adds, "It certainly made export compliance easier." |
| Australia Peru Colombia | Spokane Seed Company (Spokane, WA; 45) | Agriculture (dried peas & lentils) | Eliminate trade barriers | Expand business | "Overall, our relationships with [Australia, Peru, and Colombia] may be small, but the country provides a niche market that we have enjoyed for many years. As a company, we want to keep the trade lanes as open as possible so that business can continue to grow." |
| Australia | Supertrak (Punta Gorda, FL; 18) | Manufacturing (heavy equipment) | Eliminate trade barriers | Open business opportunities | "Open doors signify a welcome environment for U.S. business. Passage of a free trade agreement with Australia will enhance our business opportunities significantly." |
| Chile | Symetrics Industries (Melbourne, FL; 70) | Defense technology (electronic and mechanical aircraft equipment) | General | Increase competitiveness (wrt European & Asian companies) Increase business stability Open business opportunities | "Exports to Latin America would add significantly to the long-term stability of our company and could realistically contribute to our company's growth of approximately 25% in employment." |
| Chile | Systems With Reliability (Ebensburg, PA; 32) | Manufacturing (broadcast antennas & transmission systems) | Tariff reduction | Open sales opportunities Increase export sales Increase competitiveness (wrt Italian and Spanish companies) Expand business Increase employment | "We would love to sell more antennas in Chile, but tariffs often put our products out of range. During a recent trip to Chile, many of my potential customers' complaints were about having to purchase cheaper antennas from our competitors in Spain and Italy, despite the fact that they require frequent replacement. ... "With an FTA implemented, along with an upgrading of local broadcasting systems, SWR's sales in Chile would soar. The ripple effect of such sales would mean a lot to Ebensburg, Pennsylvania." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location); employees | Industry (product) | Opportunity | Benefit | Source quote |
|------------------------------|--|---|--------------------------|--|--|
| Chile | Tang Energy Group (Dallas, TX; 6) | Energy (financial services) | Reduce trade barriers | Expand business | "As we lower trade barriers all around the world, we increase prosperity and choice." |
| Peru | Tepito Electronics (Miami, FL; 20) | Wholesale distributor (new & refurbished consumer electronics) | General | Expand business Increase export sales | "We depend on this market for our success, and passage of a free trade agreement will make it easier for us to increase sales." |
| NAFTA Chile Australia | The Electric Controller & Manufacturing Company (St. Matthews, SC; 45) | Electrical controls for heavy-duty cranes | General | Increase competitiveness Increase export sales | "According to Managing Partner Keith Hudgins, free trade agreements make a big difference in his company's volume of international sales. ... It's not surprising then that the three countries in which EC&M has the highest sales volume are Mexico, Canada, and Chile—all of which have free trade agreements with the United States. In fact, says Hudgins, "Our greatest single international success has been in Chile,... We also see a real opportunity in Australia..." |
| Chile General | The Letco Companies (Decatur, AL; 50) | Pharmaceuticals | Trade facilitation | Improve business environment | Letson would like to expand his international business and has begun to investigate the growing Chilean market, where trade restrictions have been eased by the U.S.-Chile Free Trade Agreement. He supports U.S. efforts to open more free trade channels, saying that "these agreements remove the obstacles to free trade, and the more obstacles you remove, the easier it is to do business." |
| NAFTA | The Skinner Company (Greenwood, SC; 7) | Pipeline repair clamps | Customs facilitation | Improve business environment | "Free trade agreements like NAFTA have helped in that respect. "Simplified documentation requirements for shipping goods into Canada have made it very easy to trade in the Canadian market." |
| CAFTA-DR | Thermoseal Glass Corporation (Gloucester City, NJ; 60) | Manufacturing (insulating glass units) | Eliminate trade barriers | Open business opportunities Increase employment | "Free trade increases opportunities and choices for our customers, their employees, and the final consumer. More opportunities and more choices mean more American jobs when barriers to competition are removed." |
| NAFTA | TIA, Inc. (Brownsville, TX; 4) | Wholesale industrial distribution | Reduce trade barriers | General | "With 21 years of international experience, Guetzow attributes his company's success in Mexico to the reduction of North American trade barriers, a close proximity to his customers, and a keen understanding of the Mexican culture." |
| Peru CAFTA-DR Colombia | Titan Steel Corporation (Baltimore, MD; 120–200) | Tin products manufacturing (tinplate, tin-free steel, & various flat-rolled steels) | Tariff reduction | Increase export sales Employment stability | [Peru] "The end price for customers is always higher when they buy from us as a result of import tariffs leveled against our products. A reduction in trade barriers will increase our exports tremendously. ... Passage of a free trade agreement with Peru will easily triple the amount of business we do there. Increased sales will allow Titan Steel to keep plants running longer and maintain steady employment, which, in turn, will help stimulate the local economy." [CAFTA-DR] "A reduction in trade barriers could increase our exports by at least 10%. ... "Increased sales from a free trade agreement with this region will allow Titan Steel to keep U.S. plants running longer and maintain steady employment, which, in turn, would help stimulate the local economy." [Colombia] "Passage of a free trade agreement with Colombia will easily triple the amount of business we do there. ... "Increased sales will allow Titan Steel to keep plants running longer and maintain steady employment, which, in turn, will help stimulate the local economy." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location); employees) | Industry (product) | Opportunity | Benefit | Source quote |
|--|--|--|--|---|--|
| Chile | Titan Steel Corporation (Baltimore, MD; 80) | Manufacturing (tin products) | Tariff reduction | Increase export sales Increase competitiveness Increase employment stability | "We are having trouble competing because the end price to the customers is always higher when they buy from us as a result of the heavy import tariffs levied against our product. ... A reduction in trade barriers with Latin America would immediately increase our exports by at least 10%. ... However, increased sales from a free trade agreement with Chile would allow Titan Steel to keep plants running longer, create steady employment, and stimulate the local economy." Shoshani recognizes that a reduction in trade barriers would significantly improve the company's growth. A reduction in barriers would allow the company to increase trade and further work toward the mission of merging forms of data capture. |
| Chile | Top Image Systems America (Carlsbad, CA; 12) | Technical services (data collection products via electronic, paper, and invoice) | Reduce trade barriers | Expand business Increase export sales | |
| CAFTA-DR | Total Technical Services (Waltham, MA; 50) | Temporary and permanent staffing services | General | Expand business | "A free trade agreement with Central America and the Dominican Republic will undoubtedly expand our sales in the region," says Kelvin Bernard, president and CEO. "With the reduction of trade barriers, more American companies will enter the Costa Rican market, and the need for our services [will increase]." |
| Australia | Trakker Technologies (Bozeman, MT; 22) | Trade show technology (trade show lead capture technology) | Eliminate trade barriers Tariff reduction | Expand business Increase competitiveness Increase market share Increase regional opportunities | "A free trade agreement with Australia and a reduction in current duties will help us stay price competitive. Increasing market share and acquiring new customers in the region are important to Trakker's long-term growth." |
| Peru Mexico Colombia China (WTO) | Tranco (Wichita, KS; 100) | Manufacturing (conveyers) | Tariff reduction | Reduce costs Increase business opportunities | "Higher duties result in added expenses and lost business. Anytime we can reduce duties we expand opportunities. Free trade is always beneficial." |
| Australia Peru Colombia | Transcon Trading Company (Irmo, SC; 15) | Export management (equine & small pet-related products) | Customs facilitation Eliminate trade barriers | Expand business Increase business opportunities | "We have found that the current import regulations and paperwork take a long time to overcome. The end users in [Peru and Colombia] want high-quality U.S.-branded products. Eliminating existing trade barriers will allow us to meet those demands and grow our business." "The import regulations in Australia are very strict, and we have not been able to sell products unless they are in the topical category. The end users in Australia are interested in high-quality U.S.-branded products. Eliminating existing trade barriers will allow us to meet these demands and grow our business as a result." |
| Chile | Trilogy Communications (Pearl, MS; 270) | Manufacturing (coaxial cables) | Tariff reduction | Increase competitiveness Increase employment Increase employee wages | "In our industry, price is an important factor, and it is extremely difficult to compete with companies that have a zero percent import duty. ... Our success is reflected in the salaries of our employees, better working conditions, increased employment opportunities...." |
| Chile | T-Tech, Inc. (Atlanta, GA; 30) | Manufacturing (quick circuit prototyping milling machines) | General | Increase export sales | "With almost a third of our sales coming from the international market, our company strongly encourages a free trade agreement between the United States and Chile. ... We continue to strive for closer ties to the South American market. A U.S.-Chile trade agreement would strengthen these ties and allow us to increase our sales efforts in the region, thus resulting in an increase in better jobs here in our local community in Georgia." |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (product) | Opportunity | Benefit | Source quote |
|----------------------|---|---|--|--|---|
| Chile NAFTA | U.S. Foods through Winnemucca Farms (Winnemucca, NV; 150) | Food processing (dehydrated potatoes & snack ingredients) | Tariff reduction | Increase competitiveness Increase export sales Increase employment | "The tariff and duties are more than 25%, and that is a major impediment to our success. ... "if the United States and Chile were to pass a free trade agreement, it would give our products and our customers' products a competitive edge that would result in considerable increased revenues and possible expansion of our employee base." "We get inquiries from Chile all the time, so we definitely know there is a market there. ... However, opening that door is not always easy for us. When Florida agriculture is down, the Brazil-Chile markets are able to level things out economically. Therefore, we fully support trade initiatives. ... By exploring the South American market, our company projects it would nearly double its sales. We rely heavily on exports, and Latin America contains a lot of prime agriculture. That would give us double purchasing, double job openings, and benefit our local economy." |
| Chile | United Agricultural Services of America (Hudson, FL; 5) | Agriculture (environmentally safe fertilizers) | General | Increase business stability Open business opportunities Increase export sales Increase employment | "Mexico is by far our largest international market, and we hope to develop trade with other Latin American countries in the future. Valley Lubricants has been involved in international trade for more than 15 years, but our involvement has been steadily increasing over the last eight years, thanks to NAFTA." |
| NAFTA | Valley Ice & Fuel Co. (Brownsville, TX; 20) | Supplies and services (fuels and services) | General | Increase regional opportunities | "Passage of a free trade agreement will help us increase sales because we will be in a better position to compete with telecommunications manufacturing companies from other countries." |
| Australia | Video Products Group (Camarillo, CA; 29) | Telecommunications manufacturing (advanced technology video equipment) | General | Increase competitiveness Increase export sales | Pagano explains that the elimination of foreign trade barriers is important to his company because "the high cost of duties and trade regulations stifles our export efforts. If these barriers were relaxed, it would mean a surge in export business for my firm." |
| General | Videolarm Inc. (Decatur, GA; 50) | Closed-circuit TV security | Eliminate trade barriers Trade facilitation | Increase export sales | "Free trade agreements make it much easier to compete internationally." |
| General | Wagman Metal Products (York, PA; 50) | Concrete construction tools manufacturing | General | Increase competitiveness | We have gotten a great deal of interest and inquiries from Chile, particularly in the past two years. However, many companies aren't able to do business with us because of the difference in duties between countries." As a result of these duties between the United States and Chile, the company is at a competitive disadvantage. ... "Our sales would immediately increase by 10%–15% and would only continue to climb. This increase would also translate into more jobs for us." |
| Chile | Washington Chain & Supply (Seattle, WA; 26) | Manufacturing and distribution (anchors, anchor chain, mooring systems, marine hardware, & release hooks) | Tariff reduction | Increase competitiveness (wrt Canadian companies) Open business opportunities Increase export sales Increase employment | "A free trade agreement will provide us with more business opportunities while maintaining jobs in this part of the world. It is imperative to maintain as many jobs as possible in the United States. This can be achieved by expanding free trade, providing us a more equal playing field and allowing us to compete with manufacturers from other parts of the globe." |
| CAFTA-DR | Wendell Textiles (Baltimore, MD; 80) | Textiles (interfacing and interlinings) | General | Open business opportunities Increase competitiveness | |

See footnote at end of table

TABLE D.2 U.S. SME-identified export opportunities and benefits^a—Continued

| FTA or market | Company (location; employees) | Industry (Product) | Opportunity | Benefit | Source quote |
|---------------|---|---|---|--|--|
| Peru | York-ShIPLEY Global Division of AESYS Technologies (York, PA; 100) | manufacturing (fire- tube boilers and ancillary boiler room equipment) | Tariff reduction Eliminate trade restrictions | increase market access | "Local import tariff reduction, together with elimination of other trade restrictions, will directly reduce end-user costs for boilers and related equipment. This will afford increased opportunities to participate in markets where demand for Y-SG products is evident." |
| Chile | ZF Mathers (Burlington, WA; 52) | Manufacturing (marine propulsion control systems) | Tariff reduction | Increase competitiveness (wrt Canadian companies) | "Our success has been based on selling a reliable product along with local support at a competitive price. However, we now have a competitor in Canada manufacturing products sold with zero duties in Chile. This has put us at an unfair disadvantage, and as a result, we would like to have more equal market conditions." |

Sources: U.S. Chamber of Commerce—TradeRoots, "Faces of Trade: Small Business Success Stories with Peru," 2006; U.S. Chamber of Commerce—TradeRoots, "Faces of Trade: Small Business Success Stories with Central America and the Dominican Republic," 2004; U.S. Chamber of Commerce—TradeRoots, "Faces of Trade: Small Business Success Stories with Australia," 2004; U.S. Chamber of Commerce—TradeRoots, "Faces of Trade: Small Business Success Stories with Chile," 2002; U.S. Chamber of Commerce—TradeRoots, "Faces of Trade: Small Business Success Stories with Colombia," n.d.; U.S. Chamber of Commerce—TradeRoots, "Faces of Trade: Small Business Success Stories with Alabama," 2006; U.S. Chamber of Commerce—TradeRoots, "Faces of Trade: Small Business Success Stories with Georgia," 2006; U.S. Chamber of Commerce—TradeRoots, "Faces of Trade: Small Business Success Stories with South Carolina," 2007 (all above listed TradeRoots publications accessed February 16, 2010); U.S. Chamber of Commerce—TradeRoots, "NAFTA," (accessed April 11, 2010).

Notes: Not all companies profiled in the sources were included. For example, companies with more than 500 employees or without employment information were not included. Multiple profiles for the same company were consolidated into a single entry, which may result in an employment figure range. "wrt" = with respect to.

^aInformation in the "Company"; "Industry"; and "Source quote" columns is taken directly from the sources. Information in the "FTA or Market"; "Opportunity"; and "Benefit" columns represent Commission staff interpretations and categorization of source information.

APPENDIX E
Overview of the Relevant
Economic Literature

Overview of the Relevant Economic Literature

Introduction

The Commission's first report on SMEs in this series, published in January 2010,¹ presented some discussion of the economic literature on trends by these firms in seeking out foreign markets; this review will try not to duplicate that discussion. The purpose of this review is to highlight some recent academic research on the determinants of these trends. Westhead et al. note that only recently have researchers begun to explore patterns of entry into foreign markets by SMEs. They point out that many SMEs have no desire to internationalize, though this may in part reflect a lack of resources; they also observe a mix of proactive and reactive SME exporters, the latter reflecting firms contacted directly for sales by foreign customers. Especially for these "reactive" firms, the most common mode of foreign entry by SMEs tends to be direct exporting.² Susman and Stites examine these decisions on the mode of entry into foreign markets in more detail, with factors such as product complexity, intellectual property concerns, and service requirements playing key roles in determining the appropriate modal choice.³

Recent World Bank and OECD reports have discussed the barriers to exporting and other modes of international activities by SMEs. The World Bank studies have focused on financing constraints, while the OECD studies (based on surveys both of policy makers and SMEs themselves) are somewhat broader in their outlook, finding the most important barriers to "SME internationalization" to be:

- inadequate working capital for export finance
- difficulties identifying business opportunities abroad
- limited information with which to locate and analyze foreign markets
- inability to make contact with potential customers overseas.⁴

The discussion which follows examines these barriers in greater detail, focused, where possible, on U.S. and European SMEs. It then surveys studies documenting strategies that SMEs have used to overcome these barriers and patterns of exporting by both U.S. and EU firms. Finally, it gives a brief overview of the limited economic literature attempting to document benefits to SMEs from FTAs.

¹ USITC, *Small and Medium-sized Enterprises: Overview of Participation in U.S. Exports*, 2010.

² Westhead, Wright, and Ucbasaran, "Issues Surrounding the Internationalization of SMEs: Implications for Policy Makers and Researchers," 2007.

³ Susman and Stites, "SME Choice of Export Market and Entry Mode: Theory and Research," 2007.

⁴ OECD, *Top Barriers and Drivers to SME Internationalization*, 2009.

Views on Exporting Constraints and Strategies for U.S. SMEs

Beck et al. focus on the issue of SME financing, relying on data from the World Business Environment Survey, a 1999 World Bank survey of approximately 3,000 firms across 48 countries.⁵ They find, as expected, that small firms rely more on informal sources of financing than on external (especially bank) finance, and that informal sources are far from perfect substitutes for formal ones. The result is that, especially in developing countries, small firms are constrained in their activities (both domestic and foreign), as limited access to bank finance is not offset by increased use of other channels (such as leasing arrangements and trade credit).⁶ In a contemporaneous study, Rassenfosse discusses financing opportunities for high-tech SMEs, based on a survey undertaken by the European Patent Office. He finds that US SMEs are significantly more likely to obtain funding by licensing patents than those in the EU.⁷

A major focus of economists in recent years, following the work of Melitz,⁸ has been on the role of size and economies of scale in distinguishing exporting firms, essentially noting that only the most productive firms (generally the largest) are able to overcome the fixed/sunk costs of entering foreign markets.⁹ And certainly, the evidence is plain that SMEs play a disproportionately small role in exporting.¹⁰ However, two very recent studies cast some doubt on how clear the line is between exporters and non-exporters in terms of size. Ruhl and Willis, based on Colombian firm data, find that many new exporting firms start out quite small and gradually expand over several years (though many also exit the export market).¹¹ Armenter and Koren observe that the distribution of export sales across U.S. firms does not quite match the Melitz model in that the share of SME exporters, while small, is still larger than would be predicted by that model.¹² Both of these new works suggest that fixed costs of entering foreign markets—while not to be ignored—are perhaps smaller than previously thought.

⁵ Beck, Demircug-Kunt, and Maksimovic, “Financing Patterns around the World: Are Small Firms Different?” 2008.

⁶ Berger and Udell (2006), however, offer a conceptual framework for analysis of SME financing issues which argues that the financial (regulatory) structure of a country is more important than the distribution of bank sizes in promoting availability of credit to SMEs.

⁷ De Rassenfosse, “Patents as a Financing Mechanism for SMEs,” 2008.

⁸ Melitz, “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity,” 2003.

⁹ A bit earlier, Bernard and Jensen tried to sort out the direction of causality in the firm size/productivity and export success relationship, finding that “good” firms export, not that exporting firms become “good.” Bernard and Jensen, “Exceptional Exporter Performance: Cause, Effect, or Both?” 1999.

¹⁰ Mittelstaedt et al., examining a large sample of firms in the Southeastern U.S., find some confirmation that a firm’s size has a positive impact on the propensity to export, but also report that firms located in more urbanized counties and where particular industries are more geographically concentrated seem more likely to export; these “external effects” are especially important for firms with under 100 employees. Mittelstaedt, Ward, and Nowlin, “Location, Industrial Concentration and the Propensity of Small U.S. Firms to Export,” 2006.

¹¹ Ruhl and Willis, “New Exporter Dynamics,” 2008.

¹² Armenter and Koren, “Economies of Scale and the Size of Exporters,” 2009.

Freund and Pierola focus as well on sunk costs of export entry, but make a distinction between “entry into exporting, entry into new markets, and entry into new product lines.” Small firms can successfully enter existing foreign markets with products that are sold in the domestic market (as sunk costs are not too large for this category of internationalization) and targeting new export markets with these products is also feasible for SMEs. However, the sunk costs of exporting new (to the SMEs) products, especially into new foreign markets, can be substantial, suggesting an information assistance role for government policy in this area.¹³

In terms of what strategies and motivation have led SMEs to enter the global marketplace (a more general goal than direct exporting, including foreign investment as well as indirectly selling abroad through intermediaries), several recent papers shed some light. Javalgi et al. find an interesting result in noting that publicly owned (and traded) firms are more likely to export than are privately held firms; perhaps external stockholders push management to seek profitable opportunities abroad.¹⁴ Levy et al. examine “support structures” for SME exports in four countries—Colombia, Indonesia, Japan, and Korea—finding that a mix of public and private financial, technical, and marketing support is needed.¹⁵

Palich and Bagby point out that one motivation often cited for SME internationalization is a limited home market, which is obviously more of a factor for European than for U.S. firms (though this suggests that **extra**-European exporting by EU SMEs may more closely resemble the U.S. experience).¹⁶ Hessels and Terjesen examine a sample of 871 Dutch SMEs to empirically explain two choices facing SME owner/managers: (1) to export or not, and (2) if exporting, the choice between direct contact with customers abroad and indirect exporting via an intermediary. They find that subjective perceptions by owners/managers of the international focus of their rivals, customers, and suppliers tend to explain the decision to export; more concrete constraints on access to knowledge, technology, and capital determine the mode of exporting.¹⁷

Examining a large dataset for Swiss firms, Hollenstein tries to explain factors leading to an international focus, and given this, the choice of mode. He finds, first of all, that firm size matters in internationalizing, but only up to a moderate size (200 employees). Even here, firm size plays a role only in the decision of how to establish a foreign presence (vs. exporting); small firms are more likely to establish this foreign presence via contractual relationships rather than through direct ownership/investment abroad. Innovation-related advantages (especially human capital and research and development (R&D) expenditures) turn out to be

¹³ Freund and Pierola, “Export Entrepreneurs: Evidence from Peru,” 2009.

¹⁴ Javalgi et al., “Firm Characteristics and Export Propensity: A Comparison of Manufacturers and Manufacturing-based Service Providers,” 1998.

¹⁵ Levy, Berry, and Nugent, *Fulfilling the Export Potential of Small and Medium Firms*, 1999.

¹⁶ Palich and Bagby, “Trade Trends in Transatlantica: A Profile of SMEs in the United States and Europe,” 2007.

¹⁷ Hessels and Terjesen, “Resource dependency and institutional theory perspectives on direct and indirect export choices,” 2010.

the most important factors in explaining exporting activity (for all firm sizes).¹⁸ Hollenstein notes that some locational disadvantages of Switzerland (particularly high wages) seem to be particularly important factors for SMEs in deciding to establish a foreign presence.¹⁹

Orser et al., in a study of Canadian SMEs, find that small businesses reporting R&D investment were over two times as likely to export than those without R&D activities. They also report the interesting result that “immigrant entrepreneurs (new Canadians) were disproportionately exporters, even having controlled for sector, firm and other owner attributes.”²⁰ The mechanism which leads to this result is not clear, but they point to possible cultural, geographic, and market knowledge factors, as well as the “push” towards internationalization due to reduced domestic economic opportunities.

Li and Wilson analyze data on almost 15,000 firms, using the World Bank Enterprise Surveys of 14 Asian countries (conducted during 2002–2006). Sixty percent of these are SMEs with under 100 employees; 36 percent of the firms are exporters. Confirming data from the U.S. and EU, exporting firms are larger (measured by sales revenues) and more productive than purely domestic firms. The focus of the paper is on the role of “trade facilitation measures,” defined broadly to range from customs procedures to policy transparency (and lack of corruption), governance, and trade-related infrastructure (both physical—roads, rails, ports—and IT/communications-related). Statistical results clearly suggest that all possible reforms facilitating trade will both increase the probability of a firm exporting and increase the amount of its exports; increased trade transparency and IT services are seen as being especially effective in this regard. The authors note that SME exporting behavior is significantly more responsive to policy predictability than is the case for all firms.²¹

The academic literature pinpoints several specific strategies that successful SME exporters have employed:

- Peng and Ilinitch stress the importance of using “export intermediaries”—firms that provide “knowledge about foreign markets and export processes,” aid in negotiation, and help SMEs access the financial resources required in international transactions.²²

¹⁸ Roper and Love (2002), comparing determinants of exporting in the UK and Germany, find that more innovative firms are more likely to export, though the impact of co-location near other innovative firms varies between the two countries.

¹⁹ Hollenstein, “Determinants of International Activities: Are SMEs Different?” 2005.

²⁰ Orser et al., *Canadian SME Exporters*, 2008, 35.

²¹ Li and Wilson, “Trade Facilitation and Expanding the Benefits of Trade: Evidence from Firm Level Data,” 2009.

²² Peng and Ilinitch, “Export Intermediary Firms: A Note on Export Development Research,” 1998. For example, CIT Group has an Export Working Capital Guarantee Program, which is aimed at SMEs that have exporting potential but lack ready access to financial resources for needed inventories and other expenses of selling abroad.

- Hart and Tzokas focus on the need for careful marketing research and demonstrate the value of such research for SME exporters.²³
- Having surveyed 100 SMEs in the Australian wine industry, of which 50 percent were exporters, Aylward finds that internal firm motivation and strategy towards exporting is more important than external (government support) programs; he also finds that successful SME exporters are concentrated within regional industry clusters of firms and tend to export via distributors and agents rather than exporting directly.²⁴
- Lefebvre et al. consider the role of technology and R&D, finding that R&D investment must be supplemented by what they call “R&D-related capabilities,” including “investment in human capital in the form of highly qualified technical and scientific personnel” and “R&D collaboration with external partners.”²⁵
- Knight points out that the underlying managerial/entrepreneurial orientation of the firm is crucial for export success.²⁶
- Julien and Ramangalahy analyze the importance to SMEs in obtaining and efficiently processing export-related information.²⁷

A Comparison of Exporting Activities of U.S. and EU SMEs

Information about foreign markets, or the lack of this information, has also been found to limit SME exports. In 1998 Moini, based on a survey of small Wisconsin manufacturers, found a lack of knowledge about the availability of government export promotion programs (even among current exporters).²⁸ More recently, this problem of information acquisition has been modeled more formally by economists. For example, Eaton et al. present a model to analyze small-scale exporting that views exporting behavior as a “search and learning” process in foreign markets.²⁹ Resources are required to locate potential foreign buyers, and the information is “noisy”—that is, somewhat uncertain—as to the likelihood of success.

Guay notes the considerable variation across U.S. states (focusing on the mid-Atlantic and Midwest states) in the export intensity of their SMEs; he also finds

²³ Hart and Tzokas, “The Impact of Marketing Research Activity on SME Export Performance: Evidence from the UK,” 1999.

²⁴ Aylward, “Global Pipelines: Profiling Successful SME Exporters within the Australian Wine Industry,” 2006.

²⁵ Lefebvre, Lefebvre, and Bourgault, “R&D-Related Capabilities as Determinants of Export Performance,” 1998.

²⁶ Knight, “Entrepreneurship and Strategy in the International SME,” 2001.

²⁷ Julien and Ramangalahy, “Competitive Strategy and Performance of Exporting SMEs: An Empirical Investigation of the Impact of Their Export Information Search and Competencies,” 2003.

²⁸ Moini, “Small Firms Exporting: How Effective Are Government Export Assistance Programs?” 1998.

²⁹ Eaton et al., “A Search and Learning Model of Export Dynamics,” 2009.

variation in the nature of the state export promotion programs available.³⁰ Wilkinson and Brouthers find some evidence supporting a positive role of U.S. state export promotion activities (specifically, trade shows) on SME performance.³¹

Mittelstaedt et al., examining a sample of small South Carolina manufacturers, find that internationalization activities by SMEs are generally confined to exporting (as opposed to foreign direct investment or other modes). Furthermore, among small firms, they conclude that a threshold size is clearly required for export success.³²

Hessels notes the importance of innovation in explaining international involvement by Dutch SMEs, based on a sample of 1,800 firms. She finds as well that this international activity may then feed back into investment in further product innovations and distribution mechanisms.³³

Brouthers and Nakos discuss the need for *systematic* selection of international markets vs. what they call an ad hoc approach, finding “that systematic international market selection is a significant determinant of export performance for a sample of Greek firms.”³⁴

Benefits to U.S. SMEs from Increased Export Opportunities from FTAs and Other Trading Arrangements

Turning to studies of how FTAs have affected SME export performance, there has been surprisingly little prior research, and none directly on the issue of how US firms have benefited.³⁵ Somewhat related, though, is the recent work of Albornoz et al., who note that firms find out how profitable exporting may be only after they actually start exporting to a particular foreign market. They suggest that trade liberalization (both multilateral and bilateral) has an externality-type effect: observing that exports to one market are profitable (thanks to liberalizing measures) will then increase the likelihood of serving other markets.³⁶

Similarly, Alvarez, in an empirical analysis of exporting by Chilean manufacturers, finds that more productive and innovative firms are more likely to

³⁰ Guay, “U.S. States and the Global Economy: Trends and Policies in the Mid-Atlantic and Midwest,” 2007.

³¹ Wilkinson and Brouthers, “Trade Promotion and SME Export Performance,” 2006.

³² Mittelstaedt, Harben, and Ward, “How Small Is Too Small? Firm Size as a Barrier to Exporting from the United States,” 2003.

³³ Hessels, “Innovation and International Involvement of Dutch SMEs,” 2007.

³⁴ Brouthers and Nakos, “The Role of Systematic International Market Selection on Small Firms’ Export Performance,” 2005.

³⁵ However, USDOC data indicate that the *share* of SME exports going to Canada and Mexico rose significantly after NAFTA implementation (though it was still the case that over 70 percent of SME exports in 2003 were sent outside of NAFTA).

³⁶ Albornoz et al., “Sequential Exporting,” 2009.

export, but that these factors cannot distinguish between “sporadic” or “permanent” exporting performance. Consistent with the work mentioned above on learning and export externalities, he finds that previous export experience and multinational spillovers increase the likelihood of a firm being a permanent exporter.³⁷

In 1994 Julien et al. reported on a survey of small manufacturers in Quebec, Canada, on how they responded to the 1988 US-Canada FTA. The authors were surprised to learn that few of the firms were even aware of the agreement; however, more of them were taking steps to respond to globalization more generally.³⁸ Battisti and Perry present the results of a small series of interviews with New Zealand SME owner-managers who were currently or potentially exporters; perhaps due to the passage of time from the previously mentioned study, there was considerable awareness and interest in FTAs (and a desire to see more of these concluded). However, few of the 51 interviewees planned to make changes in their export strategies because of them.³⁹ Similarly, Isono finds that few Japanese firms take advantage of FTAs in East Asia, partly due to a lack of information but also partly because of a range of alternative tariff and technology provisions available to them.⁴⁰

³⁷ Alvarez, “Explaining Export Success: Firm Characteristics and Spillover Effects,” 2007.

³⁸ Julien, Joyal, and Deshaies, “SMEs and International Competition: Free Trade Agreement or Globalization?” 1994.

³⁹ Battisti and Perry, “Creating Opportunity for Small-firm Exporters through Regional Free Trade Agreements: A Strategic Perspective from New Zealand,” 2008.

⁴⁰ Isono, “Impediments to FTA Utilization and Industrial Clusters,” 2008.

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