Secretariat:
444 North Capitol, NW, Suite 401
Washington, DC 20001
Tel: (202) 624-5460
Fax: (202) 624-5452
Web: www.sidoamerica.org

Testimony of Wade Merritt,
Vice-President, Maine International Trade Center
Vice-President, State International Development Organizations

Committee on Small Business, U.S. House of Representatives
"Bureaucratic Obstacles for Small Exporters: Is our National Export Strategy Working?"
July 27, 2011

Chairman Graves, Ranking Member Velazquez, members of the Committee – thank you for inviting me to testify today. My name is Wade Merritt and I am the Vice-President of the Maine International Trade Center and I currently serve as Vice-President of SIDO, the State International Development Organizations. SIDO is the premier association of state trade and export promotion agencies in the United States and it represents the interests of state international economic development programs. We have worked with many federal partners in attempts to increase awareness of small business needs and pave the way for the successful attainment of the President's National Export Initiative (NEI). I am very pleased to be able to share this message with the members of the committee.

What I would like to do this afternoon is just take a few minutes to give you a little more background on what states do to promote exports, our view of the support needed from the federal government for small business' success, and our recommendations for improvements needed to successfully fulfill the goals of the National Export Initiative.

Nationally, SIDO states currently boast a domestic staff of 300 with a total budget of over $83 million for international development. That's not a lot when compared to the overall budget for the U.S. Commercial Service, but our overhead is lower and we've become experts in doing much more with much less.

Studies have shown that investing in export promotion is a reliable way to ensure a stable economic recovery, and is one of the best, most impactful ways governments can assist companies in making sales and growing their employment base. It is well-documented that companies which export their products grow faster, are more profitable, and pay higher wages to their employees. By doubling American exports, hundreds of thousands of new, higher wage jobs will be created for the citizens of our country. Following that logic, in his 2010 State of the Union address President Obama set as a goal that the nation's businesses should double their exports by 2015 – and that small and medium sized enterprises (SMEs) should lead the way. It is an ambitious goal that requires robust export development programs at both the state and federal level.

In 2010, nearly half of all U.S. business profits came from exports. A 2006 World Bank study demonstrated that, on average, every $1 spent by countries on export promotion yields $40 in new exports. The study also found that countries with low levels of export promotion spending generated higher rates of return ($60 or more) when they increased their export promotion spending, but at a certain point, nations will experience diminishing levels of return (such as most OECD countries). This is an important point as our country's export promotion spending is much closer to that of developing country levels (as a percentage of our total exports) than to OECD levels – simply said, there is a lot of room to grow and the time to take advantage of this opportunity is now.

SIDO's numbers show that this study has merit – the state of Pennsylvania, which boasts a healthy trade promotion program and has resources to regularly measure its own successes, reported 2010 returns at nearly 90:1 on the dollar. With numbers like these, investing in State and federal programs to promote should be an obvious priority and yet program budgets and resources are being cut at a time when we need them the most.

The numbers are sobering – in just two years, state support for trade development and investment attraction has dropped by 20% - from $103 million in 2008 to just $83 million in 2010 (up from $70 million in 2009). In 2009, 84% of states suffered drastic cuts to their budgets and 69% of states saw additional cuts in 2010. Cuts have ranged in size from 5% to 66%, and have directly affected the services offered to SME exporters because of the resultant staff reductions, foreign office closures, and other service eliminations.

While states rely on the federal government for market research information, there are many services that states provide to small businesses that the federal government does not offer. Some states even offer grants to cover the cost of company participation at trade shows and other market promotion events, and although there is massive aid for agricultural exports, there is no program in place to assist manufacturers. Many states have partnered with federal government agencies in their domestic operations, offering subsidized office space and in-kind program assistance to local U.S. Export Assistance Center staff to provide an integrated set of services to small businesses. The most basic of services, business to business matchmaking, is offered by the US Department of Commerce as well as some state contractors. However, Commerce's "Gold Key" matchmaking program is constantly under threat of massive fee increases that would put its cost out of the reach of most SMEs.

The states, working collaboratively with the federal government, are ready to assist in achieving the objective of doubling U.S. exports. However, as state trade offices are being called upon to provide ever higher levels of service, the current fiscal crisis has prompted governors and legislatures to make difficult budget choices. State governments are having to choose short-term budget fixes over proven long-term solutions – and, as I mentioned earlier, forgoing an investment with proven 40:1 returns for every dollar spent on trade promotion just isn't a choice that states should have to make.

As part of the 2010 Small Business Jobs Act, Congress authorized funding for a 3-year State Trade and Export Promotion program through the US Small Business Administration that is now poised to provide much-needed support for state trade offices and exporters. While the roll-out of the program has seen several delays as metrics have been revisited and the unexpected task of re-formatting and re-submitting proposals has been burdensome to limited state resources – and I can attest that I have personally been wrestling that burden while simultaneously preparing this testimony - the program has the potential to truly revitalize American exports. Simply stated, once STEP program funds are awarded, states will quickly be in a position to enhance the services and assistance available to small and medium-sized exporters.

SIDO strongly believes that there are several export promotion priorities that should be addressed and implemented in order to maximize the chances of success for the NEI:

> **A revitalized US Commercial Service** (USCS) will be essential to deliver on the NEI's commitment. Even the best funded state trade program can't provide global market coverage and all states depend on the worldwide network of Foreign Commercial Service posts to provide their businesses with market access in countries where the state has little or no independent resources. In the case of small states like Maine that have no overseas representation, Commerce's presence in foreign markets is absolutely key to our SME's successful market entry. Adequate funding must be provided to USCS international operations to assure that timely support is available to assist U.S. companies. Small and medium sized firms hold the largest potential for export expansion, but also require the highest level of overseas support to enter new markets and diversify their exports.
>
> Over the last decade numerous overseas USCS positions and commercial offices abroad have been eliminated. SIDO believes that adequately staffing foreign commercial posts and providing them with the tools to effectively perform their mission should be among the highest priorities of U.S. Department of Commerce. Especially critical, in our opinion, will be filling and retaining the locally engaged staff (LES) positions that have been eliminated or allowed to remain vacant for budgetary reasons. These specialists are people from the local area who are engaged in their local business communities, speak the local language, and are invaluable to inexperienced exporters trying to reach an international market.

State programs are well-positioned to compliment federal promotion efforts overseas by providing on-the-ground, practical assistance to US exporters. Further reductions in the USCS budget and overseas USCS personnel deployment would adversely affect state trade programs and have a devastating effect on the ability of U.S. small and medium producers to export their products.

Traditional markets will be essential in doubling exports. Exporters will need to access those markets that historically and currently are providing the best opportunities for success for U.S. exporters. While accessing emerging markets for U.S. products is a worthwhile objective, most SME exporters will find the best opportunities in traditional markets in such as the European Union and the Western Hemisphere. In recent years, key commercial posts in markets where our exporters have enjoyed a comparative advantage (such like Hamburg, Barcelona, and Amsterdam) have been closed. Canada, our largest trading partner and often the first export market for SMEs, has been gutted and has just one US commercial officer responsible for the entire country. Our support in these markets should be expanded, not reduced, and these offices should be reopened and staffed as soon as possible.

Pricing for USCS services, such as the Gold Key and International Partner Search Program, should be maintained at the current rate which is affordable for SME exporters. States pay for the services we receive and some states use up to a third of their trade budget each year to subsidize federal trade promotion services for their companies. In fact, the state of Florida is the single largest consumer of "Gold Key" trade promotion services in the country. These programs represent some of the tools most frequently used by SME exporters to enter new markets, Increasing the cost would be counterproductive to the NEI. In addition, implementation of a program offering financial support in the form of export grants for U.S. manufacturers, with equivalent resources to U.S. Department of Agriculture's Market Access Program, should be introduced to assist American manufacturers to enter the export business and/or diversify their exports.

Increased support for the Small Business Administration's Office of International Trade is essential to the success of the STEP grant program. The federal government has provided the monetary resources necessary for SMEs to achieve the NEI's goal of doubling exports – now it's necessary to fulfill that commitment by affording the SBA the resources it needs to name a full-time associate administrator for international trade and supplement its staff with the numbers necessary to roll out this pilot program successfully and efficiently.

An enhanced partnership between the USCS and state trade agencies to seamlessly deliver customer-focused services is critical to expanding the pool of successful U.S. exporters and promoting market diversification among existing exporters. Currently, there is no incentive for USCS officers in the field to share information or successes stemming from collaboration with state trade officers. In order to better coordinate efforts and avoid duplicative services, there needs to be a mechanism for sharing metrics, tracking successes and identifying areas for improvement The USCS and SIDO members, working together, can make a powerful team for providing better service delivery to mutual customers, the American SME, and potential exporters of products and services.

American exports create and sustain millions of jobs in the U.S. and current prospects for expansion are excellent, but a collaborative approach that combines resources at the federal and state levels in a systematic and efficient manner is the only way the NEI will be successful. As our states are required to balance budgets annually, we are all too aware that federal budget reductions will require some painful decisions, but at a time when the Administration has rightly shone a spotlight on exporting products and services as a key to future prosperity, we would prefer that our federal partners look to us to find efficiencies and use those savings to expand services where possible, rather than make cuts in what may seem like a vacuum, but is actually a vital piece of a larger system.

Thank you, members of the committee, for allowing me the opportunity to speak – I welcome your questions.