

**READY TO EXPORT: SMALL BUSINESS POLICY
RECOMMENDATIONS FOR USTR**

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

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Questions for the Record:	
None.	
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None.	
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None.	

READY TO EXPORT: SMALL BUSINESS POLICY RECOMMENDATIONS FOR USTR

WEDNESDAY, JUNE 26, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,

Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360, Rayburn House Office Building. Hon. Sam Graves [chairman of the Committee] presiding.

Present: Representatives Graves, Chabot, King, Coffman, Luetkemeyer, Mulvaney, Tipton, Herrera Beutler, Hanna, Huelskamp, Schweikert, Collins, Rice, Velázquez, Schrader, Chu, Payne, Meng, and Schneider.

Chairman GRAVES. Good afternoon, everybody. We will call this hearing to order.

And I want to thank our witnesses for making the trip to Washington for this very important hearing. I look forward to your testimony. I know some of you have come a long way, and we appreciate that very much.

This hearing comes at a very important time for the international trade community. Last week, at the G8 Summit in Northern Ireland, President Obama officially launched trade negotiations with the European Union. In addition, Michael Froman was sworn in as the United States trade representative. It appears that we may have some momentum on the trade agenda, which is welcomed news to many small businesses I know.

This Committee understands the benefits of international trade for small firms in the economy overall. In 2012, exports of goods and services reached 2.2 trillion, or nearly 14 percent of the U.S. gross domestic product. Those exports provide new sales opportunities, and most important, they help create and support good-paying American jobs. Unfortunately, along with limited resources, small firms face a variety of trade barriers that constrain their participation in the global market. As a result, small businesses that do export rely heavily on the negotiated free trade agreements that remove complex trade barriers, provide protection for their intellectual property, and help streamline the trade process.

Currently, the USTR is working on a variety of initiatives that will help remove barriers and open new markets for small business exporters, most notably the Trans-Pacific Partnership, the Trans-Atlantic Trade and Investment Partnership, and the World Trade Organization negotiations regarding services and information technology. These agreements hold great potential for small businesses, and we must make these negotiations a priority.

Earlier this year, the Committee drafted a set of trade policy principles aimed at identifying no-cost, common-sense solutions to assist small business exporters. The first principle, and the primary focus of today's hearing, is developing an aggressive trade strategy to open new markets for exporters, and we cannot sit on the sidelines while other countries negotiate trade agreements and put our businesses at a competitive disadvantage. We need leadership from the administration and new USTR to seize these opportunities.

Today, we are going to hear directly from small businesses about the administration's trade policy agenda, and specifically, how to help increase U.S. exports and create good-paying, U.S. jobs. And with that, again, I want to thank all of our witnesses for being here. And I will turn to Ranking Member Velázquez for her opening statement.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

In the last year, international trade has emerged as a bright spot in the continuing U.S. economic recovery. According to the Department of Commerce, exports increased 1.2 percent to \$187 billion in April, the second highest level on record. U.S. businesses are having particular success selling industrial and telecommunications commitment abroad, while American-made vehicles and auto parts also rose to a high level of \$12.8 billion.

Given the critical connection between trade and job creation, this is good news for U.S. workers. With foreign trade on the rise, so are opportunities for small businesses as they make up 98 percent of all exporters. Recent research confirms this, showing that more small firms are exporting today than just three years ago, while many more are becoming increasingly interested in doing so. For many companies, their success depends in part on their ability to access these international markets.

Small businesses, however, face many challenges. It takes time to identify foreign markets, to target new customers, and to learn the ins and outs of the exporting process. In fact, nearly half of small exporters spend a minimum of a few months a year, as well as an average of 8.4 percent of their annual operating revenue preparing to export. Compounding this obstacle is that they often have fewer resources to expand on developing a trade strategy or complying with complex regulations. As a result, they consistently enter fewer markets than their larger counterparts, with nearly 60 percent only entering one, while more than half of large firms export to four or five markets.

In order to help breach this divide, there are several tools and resources available to small exporters. The key core are U.S. Export Assistance Centers, which fill a void by providing access to technical trade specialists in over 100 cities in the United States and 80 countries worldwide. By delivering foreign industry and market expertise, as well as trade compliance assistance, small businesses are better able to navigate the complex terrain of the international marketplace.

Another top challenge that small exporters face is securing credit, which is essential to finance cross-border transactions. If banks are unwilling to provide this funding, companies' ability to export will be severely curtailed.

To address these very problems, the SBA and the Export-Import Bank provide small business specific export financing products. Last year, SBA loans generated \$1.7 billion worth of small business exports, while Ex-Im Bank authorized more than \$6.1 billion in financing and insurance for small businesses, a record for the bank. These initiatives are critical, especially during periods when banks pull back on their own lending to exporters.

While these nuts-and-bolts challenges always persist, there is another on the horizon that is even more serious—that weak global demand could reduce U.S. exports. The recession in Europe continues to put a dent in American sales abroad as exports to the European Union declined nearly 8 percent. With China, the trade deficit rose to \$24 billion, the highest level since January, and the largest with any single nation. Exports to China decreased by 5 percent.

Not only are American exports declining, but imports from these foreign nations are rising as the U.S. market remains a top destination. International trade will always be a complex undertaking dependent on this complex global macroeconomic climate, as well as a country's specific trade policies and resources. Regardless, it is absolutely critical that small businesses are able to participate in this marketplace. Doing so gives them access to more customers, which in turn fuels their growth and employment, and that of the U.S. economy overall.

I would like to take a moment to thank all the witnesses for being here, and I look forward to hearing your perspective on these challenges. Thank you.

Chairman GRAVES. I yield to Representative King for introduction.

Mr. KING. Thank you, Mr. Chairman.

I would like to welcome and introduce Pam Johnson, a constituent of mine, but also a friend, and a focused and determined and hard-working member of the family farm where she and her husband and two sons raise corn and soybeans near Floyd, Iowa. She is the president of the National Corn Growers Association, and also Pam is very active in national and state advocacy groups. She serves as a member of the National Agri Industry Council Executive Committee, and is the current director of the Iowa Corn Growers Association as well. All of that and still time to farm. She is testifying on behalf of the National Growers Association, and I want to thank Pam Johnson for being here to testify today.

STATEMENTS OF PAM JOHNSON, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION; BROOKE FISHBACK, INTERNATIONAL SALES MANAGER, HEALTH ENTERPRISES, INC.; GARY HUFBAUER, REGIONAL JONES SENIOR FELLOW, PETERSON INSTITUTE FOR NATIONAL ECONOMICS; MARIANA HUBERMAN, UPS STORE OWNER.

STATEMENT OF PAM JOHNSON

Ms. JOHNSON. Thank you for that kind introduction.

Chairman Graves, Ranking Member Velázquez, and members of the Committee, thank you for the opportunity to testify about ex-

ports and policy recommendations for the U.S. Trade Representative.

NCGA, as you have heard, I currently serve as president of the National Corn Growers Association. NCGA was founded in 1957 and represents over 38,000 dues-paying farmers. We support a consistent U.S. trade policy that maximizes corn access, market access for corn and corn products, and does not disadvantage our industry for the benefit of another sector. As farmers, we know that 95 percent of the world's population lives outside of our borders. That is why trade is so important to us and to our nation.

NCGA members have much to gain from government policies that encourage exports and facilitate small, family-owned farms entering the global marketplace. The administration's current trade agenda is ambitious and it is complex, negotiating simultaneously with the E.U. and the Asia-Pacific countries will require a tremendous amount of resources and a well-defined set of principles to guide the trade talks. Trade is most efficient when policies are predictable, reliable, and designed to encourage, not hinder, the flow of trade. During my testimony, I hope to emphasize the recommendations that will maximize family farmers' access to foreign markets.

Currently, USTR is preparing for the first round of the Trans-Atlantic Trade and Investment Partnership negotiations. NCGA has called for the trade agreement to be comprehensive and to tackle the significant hurdles that must be overcome when dealing with ag products. For NCGA members, the biggest challenge is the approval of corn and corn products that are derived through biotechnology. The E.U. is a market that holds great potential, but it is often overshadowed by delays and approvals and regulatory decisions that are dictated by political pressure and not by science-based evaluations.

Unjustified regulations are costing family farmers millions in lost sales to the E.U. and could result in even greater losses of U.S. exports if they are adopted by other countries. So we urge USTR to keep the following principles in mind as they begin negotiations with the EU.

International trade rules that fully support trade and products of biotechnology for planting, processing, and marketing subject to science-based regulation. We must oppose de facto bands or moratoria on approvals by Europe and other WTO member countries. There is no justification for measures taken under the guise of the precautionary principle absent the relevant scientific evidence and politically motivated bands or moratoria by WTO member states are not consistent with the members WTO obligations.

NCGA members do not support a "take what you can get" approach to the bilateral agreement with the EU. The Trans-Pacific Partnership negotiating structure should be used as a template for TTP. This is the best way to achieve an outcome that the food and ag sector can strongly support. TPP is intended to be a comprehensive agreement covering all sectors without exceptions. All topics are to be included as a single undertaking, which means that nothing is agreed to until everything is agreed to. Critical SBS provisions must be subject to dispute resolution; otherwise, USTR sends a signal that family farmers' issues are a low priority. USTR must

keep the concept of competitiveness in mind when addressing international regulatory challenges for ag products derived from biotechnology. Trade disruptions caused by barriers to biotech stand to hurt the entire value chain. We encourage USTR to improve the international regulatory environment.

Last month, the USDA released its fourth outlook for US ag trade in fiscal year 2013. USDA projects \$139.5 billion in ag exports, which if realized would be a new record.

In conclusion, ag producers succeed when industry and government work side by side. As a farmer, I cannot and should not assume that our industry will be taken care of in TPP or TTIP. It is critical that U.S. negotiators have an appreciation for how increasing exports translates into benefits for family farmers. The U.S. economy will not benefit from ag issues being placed on a to-do list, so now is the perfect time to eliminate longstanding barriers to ag exports and promote policies that bring economic opportunity back to rural America. Thank you.

Chairman GRAVES. Thank you very much, Ms. Johnson.

Our next witness is Brooke Fishback, international sales manager at Health Enterprises, Inc. He is a member of the International Trade Advisory Committee 11, which advises the secretary of commerce and the USTR on the small business trade policy.

Thank you very much for being here. I look forward to hearing your testimony.

STATEMENT OF BROOKE FISHBACK

Mr. FISHBACK. Chairman Graves, Ranking Member Velázquez, and members of the Committee, thank you for the invitation to testify at this hearing on international trade policy and for the opportunity to share my views and experiences of our company, Health Enterprises.

My name is Brooke Fishback, and I am the international sales manager for Health Enterprises, a leading manufacturer and distributor of first aid and other consumer health products and a true American success story. In the early 1970s, Arthur Lehman founded the company in the basement of his home and sold products door-to-door to independent pharmacies. Today, still family-owned and operated, we sell our products under Acu-Life brand and as private label brands to over 25,000 retail stores here in the U.S. and have exported our products to over 60 countries worldwide. Even with all this growth domestically and internationally, we are still a small business, with fewer than 50 employees involved in sales, marketing, production, and logistics at our headquarters in North Attleboro, Massachusetts. That being the case, and similar to small businesses throughout the U.S., we do not have large legal teams or in-house regulatory departments to navigate complicated international rules for global commerce. Instead, we rely on the USTR to negotiate beneficial, easy-to-understand trade agreements, so that we can sell our products to those 95 percent of consumers that live outside of our domestic market.

First, I would like to talk about trade agreements, and I have two points for USTR. Point one, USTR should strive to include Trans-Pacific partnership negotiations as soon as possible so that we can begin receiving the benefits of the trade agreement. Cur-

rently, around 36 percent of our export sales are directed to TPP-negotiating countries. We are excited about exploring new sales opportunities and would estimate the market is worth tens of thousands of dollars per year in new business.

Point two, USTR should energetically enter into Trans-Atlantic Trade Investment Partnership negotiations. Around 38 percent of our export sales are directed to E.U. member states, with the UK being our top market. Tariff rates between the U.S. and E.U. are already relatively low, and so the key will be to find common ground as it pertains to nontariff barriers, including standards and regulatory cohesion. We currently encounter issues of costly and time-consuming re-registration with our FTA registered products in the European Union. For example, for us to sell a simple finger splint, the kind that you would buy in the first aid aisle of a retail pharmacy here in the U.S., in the E.U. we need to register the product with the member country's Ministry of Health, which costs several thousand dollars and requires many man-hours to complete the paperwork.

Second, I would like the USTR to continue to work on leveling the playing field for U.S. companies. For example, USTR needs to ensure the countries to whom we grant preferential duty rates to enter our market under the generalized system of preferences or other programs also grant U.S. exporters equitable access to their markets. Brazil, for example, represents the largest market in Latin America and should theoretically be a good market for U.S. exporters. The problem is they have high duties, taxes, regulatory, and other nontariff barriers to keep U.S. exports out, while we allow low tariff or duty-free access to most Brazilian exports.

In conclusion, I would like to leave you with four key points which will help small businesses like ours increase exports. Point one, free trade. USTR needs to maintain an aggressive trade agenda to assist small businesses in growing their international business. Small businesses are the engines of export growth and exporting stimulates the economy and creates good American jobs.

Point two, trade promotion authority. The president needs TPA for good faith trade negotiations with other countries. Trade agreements should not be renegotiated when sent to Congress but be subject to an up or down vote.

Point three, exporter education. Ensure sufficient funding for the SBA's Small Business Development Centers so that they can provide export education for U.S. small businesses. In conjunction, we support your Committee's work in exploring additional opportunities for coordinating state and federal trade agencies to assist small businesses.

Point four, export promotion. Ensure sufficient funding for the U.S. Commercial Service, and in particular, their overseas offices, which provide the "boots on the ground" support that we need for market information and which perform the Gold Key matchmaking service which arranges meetings for U.S. companies with prescreen potential partners in foreign countries. Ensure that costs for U.S. commercial service services like their Gold Key, remain affordable so that small businesses can actually participate.

Thank you again for the opportunity to testify. I look forward to your questions.

Ms. VELÁZQUEZ. It is my pleasure to introduce to the committee Dr. Gary Hufbauer, the reginald Jones Senior Fellow with the Peterson Institute for National Economics where he has written extensively on foreign trade issues. He was formerly the Maurice Greenberg Chair and Director of Studies at the Council on Foreign Relations, the Marcus Wallenburg Professor of International Finance Diplomacy at Georgetown University, and the Deputy Assistant Secretary for International Trade and Investment Policy at the U.S. Department of Treasury. Welcome, sir.

STATEMENT OF GARY HUFBAUER

Mr. HUFBAUER. Thank you, Ranking Member Velázquez, and thank you, Chairman Graves.

In thinking about the impact of free trade agreements on small business, I think it is useful to distinguish between direct exports and indirect exports of these firms. Turning first to direct exports, over 300,000 American small business firms, defined as firms with fewer than 500 employees, directly export goods and services to foreign markets. The number, as Ranking Member Velázquez said, 98 percent of all U.S. firms that do any exporting. And they contributed about a third of U.S. merchandise exports between 2002 and 2010. We do not know what their contribution was to services exports. These same firms account for about half of U.S. employment, so the direct exports are less than their employment share in the U.S.

Now, turning to indirect exports by small business, this is a very important component as suppliers to multinational corporations that export everything from heavy equipment to entertainment software and so forth. And these indirect exports are combined with other intermediates and mobile value chains. This is undercounted. This is underappreciated. But to give a rough idea of what is going on, the OECD recently conducted a study of the value-added and services exports, and they found that when we do it on a value-added basis, services exports are about 40 percent of merchandise exports amongst OECD countries, whereas the official statistic is only 20 percent. I think if we were able to get data on the indirect exports of small business firms we would find that they are much more important. And a big recommendation that I have is that this Committee press International Trade Commission and the Department of Commerce to do a much, much better job on the indirect export angle.

Now, turning to free trade agreements, they are positive for the reasons my colleagues on the panel have said. A recent survey by the International Trade Commission on Korea—the U.S.-Korea Free Trade Agreement found a generally favorable impression by small business firms. Standards are an important issue as have been mentioned, a very important issue. U.S. firms have done much better in the Korean auto market and other examples that can be sold.

Now, we should expect similar positive outcomes but on a much, much larger scale from the Trans-Pacific Partnership and the Trans-Atlantic Trade and Investment Partnership. An important issue again referenced by my colleagues is trade facilitation. That is kind of a gooney phrase but it means a lot. And to be very con-

crete and blunt, it means cutting down on corruption in a lot of foreign markets, which is a big problem for everyone, but the smaller you are, the bigger the problem. And hopefully we will get some progress on trade facilitation at the Bali Ministerial Summit from the WTO, but also in the TPP and the TTIP.

I would also mention the new study by the World Bank on the so-called eBay effect when we combine Internet. Everybody knows about that. And eBay and sales and so forth. It really cuts the impact of distance on cutting down exports. More distance really reduces exports but the eBay effect, which is eBay-type online services plus UPS, FedEx, so forth, really does a great job, and that is important to small business.

There are many actions outside FTAs to help small businesses. I recount them in my testimony and you all know them, but I would just conclude by saying that this country is really shrinking in infrastructure. I mean, really descending. You know, 20 years ago when I was out of graduate school we were first. In the 1990s we were about third, and now we are about 17th. It is really discouraging because that is a big part of doing business internationally and we are slipping.

Thank you very much.

Chairman GRAVES. Our final witness is Ms. Mariana Huberman, UPS Store owner that is here in Washington, D.C. As a service exporter, she advises and assists small businesses with exporting and transporting their products to foreign buyers. Welcome to the Small Business Committee and I look forward to hearing from you.

STATEMENT OF MARIANA HUBERMAN

Ms. HUBERMAN. Thank you, Chairman Graves, Ranking Member Velázquez, and members of the Committee for the opportunity to appear before the House Committee on Small Business to discuss some small business recommendations for international trade negotiations.

As the chairman said, my name is Mariana Huberman, and I have been the owner of a UPS store here in Washington, D.C. since 2005. The UPS Store network is the world's largest franchisor of retail shipping, postal, printing, and business service centers. Today, there are nearly 4,700 independently owned UPS store locations in the U.S. and Canada, and I am proud to say that my store is ranked in the top 30 on that list.

When I decided to open my store, I wanted to provide excellent customer service and critical business services that were lacking in my neighborhood. My staff knows the names of most of our clients, and they know ours. We really consider ourselves to be vital partners in their growth and success. Every day, my staff and I deal with small business owners looking to grow their businesses, both domestically and internationally. It is our job to make their jobs easier, whether by navigating complex custom rules when shipping their packages, providing a business mailbox to ensure they do not miss important shipments, or printing their marketing materials to grow their business footprint. It is also our goal to become an integral partner to each of them and help them access the global marketplace.

However, these customers face a number of challenges when looking to export. For example, we have a couple of art galleries and artists who are clients. We ship their artwork all around the country and we also try to ship it around the globe, but we run into trouble when shipping to Italy because customs regulations there require that the Italian Ministry of Arts perform a mandatory inspection on all artwork which could delay artwork for a minimum of 10 days. Another customer sells non-prescription vitamin supplements and has a difficult time getting those delivered overseas because countries like Australia require import approval from the Department of Health. And Germany requires a German doctor's prescription. In the Ukraine, you not only need a doctor's prescription, but you also have to list the ingredients in English and Latin, and then their intended purpose in Ukrainian.

We have a customer who is a potter and sells her items online. We tried to ship a set of coffee mugs to New Zealand and could not do it because we needed to provide a heavy metal certificate or have the item subjected to testing by the New Zealand Ministry of Health. We even ran into problems when a customer wanted to send some clothing to a children's charity in South Africa. Once we got everything ready to go, we found out that used clothing is not acceptable in South Africa and that full duties would be applied to any of the unworn items for things being sent to an orphanage.

When one of these business owners ships an item overseas, we try our best to determine before we start if their items are going to be held up in customs or not. Once the packages arrive at their destinations, we work with UPS and their overseas customs contacts to clear the merchandise as quickly as possible. It is good to have a partner like UPS to help facilitate trade for our customers, but even UPS continues to face challenges in the customs arena, like the ones I mentioned and any improvements to these systems would be a great benefit to our customers.

Small businesses can effectively export to global markets if only there are international rules that enable them and their service firms, such as UPS that serve them, to move their information, products, and services freely across borders. Fortunately, there are several international negotiations underway through which the U.S. government can eliminate barriers and create new international rules that will greatly expand the opportunities for small companies from the United States.

Important trade negotiations for small businesses are taking place in Geneva, Switzerland. The first is the negotiations in the World Trade Organization on what is called trade facilitation. These are the procedures and rules at the border that determine how effectively and economically goods can enter foreign markets. Small businesses cannot afford delivery delays to their foreign customers because they do not get paid until their merchandise is delivered. New international rules are needed to reflect all the changes in the world since the last set of international rules for services was established almost 20 years ago. The United States recognizes this efficiency, and last year teamed with other countries to eliminate negotiations on the Trade and Services Agreement. The TSA negotiations could be most helpful to small businesses in the U.S. by establishing open markets and non-

discrimination for U.S. service companies enabling to reach the 95 percent of consumers who live outside the U.S.

The United States is also negotiating a comprehensive trade and investment agreement with the E.U. and the so-called Trans-Atlantic Trade and Investment Partnership and the Trans-Pacific Partnership with the 11 countries around the Pacific Rim. In both these negotiations, it is important that the U.S. negotiators seek the same high-level ambition as they are seeking in the two sets of negotiations in Geneva.

Small businesses are the lifeblood of the American economy and the services are the central nervous system on which the small businesses depend. Small businesses cannot penetrate foreign markets without an array of services to support them, and those services must have free access to foreign markets and nondiscriminatory treatment within those markets.

Given the several negotiations on new international rules, it is timely for the Committee to be holding this hearing today on small business recommendations to the newly confirmed U.S. trade representative and any agencies that participate in these negotiations.

Thank you again, Chairman Graves and the Committee for giving attention to these issues of vital importance to the expansion and prosperity of America's small businesses and their employees.

Chairman GRAVES. Thank you, Ms. Huberman.

We have got two votes. We are going to go ahead and I think we have time for one question to start off which I will turn to and yield to Representative Luetkemeyer and we will recess for a short period and come back. Blaine.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

I appreciate everybody's testimony this afternoon. It was very interesting.

Ms. JOHNSON, what percentage of the corn crop is exported right now per year roughly?

Ms. JOHNSON. Well, because of the drought last year we have seen a decrease. In 2011, it was 13 percent. This last was 8 percent, and we know that we have lost that market. I have personally been to Korea and Japan and China talking and building relationships, telling them their business is important to us and we want to be back to being their reliable supplier.

Mr. LUETKEMEYER. One of the problems that we have with the E.U. is the genetically modified corn. Can you describe that just a little bit and what, if anything, is being done to solve that problem?

Ms. JOHNSON. Sure. As I talked about in my testimony, solving the SPS restrictions is a priority for our members in the E.U. because that is used as a nontariff barrier to block biotech products, and in the United States our corn is now 88 percent used as a biotechnology event. As is with our competitors in Brazil and Argentina, we are both up at about the same levels. So those SPS restrictions are hugely important to us in the EU.

Mr. LUETKEMEYER. You made comment that you liked the Trans-Pacific Agreement. You thought it would be a good template for our trade rep to use in his discussions with the EU. Can you elaborate just a little bit on the highlights of that that you like?

Ms. JOHNSON. Sure. I think the main thing is, as I said, I think the big point is that we know that 95 percent of the population lives outside the United States. So using that as a template for TPP and TTIP would help us in a framework that would be workable. To hit the ground running I think would help.

Mr. LUETKEMEYER. Mr. Hufbauer, you talked about indirect exports and were very emphatic about being able to use those or to expand those in the negotiations. Would you like to elaborate on just a little bit? It seemed like you had a lot of good information and were quite emphatic in your testimony about how important this was. I would like to hear a little bit more about that.

Mr. HUFBAUER. Well, my guess—thank you, Congressman—my guess is that they are as important as the direct exports, but that is a guess because the data is so poor. So we need better data.

Now, what the story of international trade today is increasingly becoming are these vast global value chains, which are really—there is a U.S.-E.U. There is a U.S-Mexico-Canada. There are Asian global value chains. Africa, unfortunately, is not part of this very much today. But behind these global value chains are lots and lots of suppliers and small businesses are a big part of those suppliers. And what happens is that these global value chains impose upon their suppliers all the standards that are required in the final market, so all the kinds of things that Ms. Johnson spoke of in the agricultural field or standards in any kind of medical area or any manufacturing, those are going to descend down to the suppliers. And if the supplier does not meet the standard, it is going to be knocked out of the chain.

Mr. LUETKEMEYER. So how does it get addressed in a trade agreement?

Mr. HUFBAUER. The way it gets addressed is by trying to have more objective standards. And the amount—

Mr. LUETKEMEYER. Forgive me for interrupting. The objective standards versus the punitive standards that are set in some of the trade agreements?

Mr. HUFBAUER. No, as opposed to—a big example of the non-objective standards is the precautionary principle, which is basically, you know, we think it is going to harm three generations down so we do not import it. No scientific evidence for that.

But that is just one. There are a lot of standards which are unique to the standards, are not compatible with international standards, and block imports, unless you meet their country's standards. So a major objective of the TTIP is supposedly to get regulatory convergence between the U.S. and Europe in lots of areas. We have worked over that ground for 20 years without success. This is supposed to be the big initiative, so auto standards, electrical products—you go right down the list—we either recognize theirs or we convert with them over time. It will be a long-term process, but then that feeds down to suppliers. So if you are a small business firm to try to make one kind of product with one set of standards for the U.S. market and another for the Korean market and a third for the European market, I mean, you know, it kills you. Financially, that kills you. I headed up a national—

Mr. LUETKEMEYER. Basically, you are looking for standardization in this agreement?

Mr. HUFBAUER. Yeah. More standardization. I headed up a committee 20 years ago for the National Academy of Sciences on this, and it is a major, major problem. So that will hopefully be addressed to some extent in these agreements.

Mr. LUETKEMEYER. Thank you very much. I see my time has expired. Thank you, Mr. Chairman.

Chairman GRAVES. We will go ahead and recess, and when we come back Ms. Velázquez will have her questions. And so it will be about 30 minutes, 20 minutes. We will probably be back in about 20 minutes.

[Recess]

Chairman GRAVES. All right. We will call the hearing back to order, and we apologize for the delay.

I will now turn to Ranking Member Velázquez, who we just learned is going to be one of the star players tonight in the congressional softball game. So I hope everybody can attend.

Ms. VELAZQUEZ. Thank you. Thank you.

Dr. Hufbauer, as labor costs have increased in foreign markets and transportation expenses remain high, there has been a pickup in reshoring. Many U.S. companies, including large companies like Apple and Caterpillar, as well as small businesses, are moving production back to the U.S. Do you expect this trend to accelerate?

Mr. HUFBAUER. Thank you, Congresswoman Velázquez.

I think there are two very favorable things for the U.S. in the next—let us say the next decade. One is that we will probably be the low cost energy country amongst major countries, and certainly, by comparison with China or Japan, Europe, we will be lower cost. And that will be very favorable.

And secondly, as your question indicates, wage rates are rising fairly rapidly in Asia—not so much in Europe but in Asia they are—and that is favorable for the U.S. So I would expect at least the trend to continue and U.S. manufacturing to have a fairly good decade going ahead maybe compared to the decade of the past. But I have to add that productivity in manufacturing in this country is very high. Our growth rates in productivity are quite high and there is no indication they are slowing down. So it might not be such a boom in employment. Sales, yes; employment, less so. Thank you.

Ms. VELAZQUEZ. What impact would the Trans-Pacific and Trans-Atlantic Partnership have on the economic viability of reshoring?

Mr. HUFBAUER. Well, I think there is going to be a lot of this global value chain idea, which is tied in with offshoring and producing goods and services where they are, you know, least cost is definitely going to continue and we are just part of the way down this historic roadmap. But the TPP, if it succeeds, will cut barriers abroad very substantially. Our barriers are generally low. They are not zero but they are generally low whereas barriers in many countries in the TPP group are modest to high, especially when you talk about the standards and the behind-the-border barriers. So I think it will mean good times for U.S. participation in Asia. And if we did not have the TPP, I think the headwinds would be much harder for U.S. suppliers.

Ms. VELAZQUEZ. Thank you.

Ms. Johnson, many have questioned the benefits of free trade agreements, arguing that they actually divert demand for domestic goods to lower costs of foreign goods, which produces poor quality jobs abroad. If the Trans-Pacific Partnership is ratified, would U.S. corn growers create more jobs as a result of that? Or would the benefits flow mainly to foreign producers?

Ms. JOHNSON. Well, first of all, we have to put it in the context of where we think the growth potential is, and TPP is focused on a region in the world where we know that the demand for corn and corn products and livestock is really growing because of the growth of the middle class there and the ability for purchases, and a diet that people want more protein. So this is very important to us. We think the growth part as we look out to the future, we think it is where we can grow our products and exports. And one in 12 jobs is directly tied back to agriculture in the United States, and if TPP is ratified, we think that it will increase the opportunities for a high demand for corn and those corn products, so that we will see economic growth on farms from increased exports and then more opportunities for the next generation. I have two young sons that are back farming and a lot of people their age are able to come back if there is opportunity to participate in those jobs. And I think that U.S. Corn Growers, we believe that we can compete on quality. And as I said before, you know, we have been—even though our exports have gone down to 8 percent, we have been back recreating those relationships so that we can get back in the market and be competitive with other countries who are also going after these same markets.

Ms. VELAZQUEZ. Thank you.

Mr. Fishback, you spoke about the importance of assistance—technical assistance and support for exporters, our American exporters. The recent sequester has reduced funding for the Commerce Department's International Trade Administration limiting export promotion services and trade compliance assistance. What will the impact of these reductions to small businesses or small importers be?

Mr. FISHBACK. Thank you for the question.

I think one of the primary things to remember is that expenditures on programs that support export promotion actually generate revenue, so a lot of expenditures—

Ms. VELAZQUEZ. Yeah. So it is a wonderful thing to actually spend money on because it generates the revenue. So by not spending more money on it you are going to have less opportunities for especially new-to-export companies entering new markets, you are going to reduce potential revenue for those companies, and then on the back end, decrease tax revenue from the increased salaries that you would experience from someone working in one of those companies, and corporate income taxes from those companies as well. So by not spending money on it you are doing great injustice to not only small businesses and their ability to grow, but also to the overall revenue for the U.S. government.

Ms. VELAZQUEZ. Yes. That is why it is so important—

Mr. FISHBACK. It is very important.

Ms. VELAZQUEZ.—that we come together in Congress and put an end to sequestration.

Ms. Huberman, the U.S. is currently part of the negotiations to update rules for the “trade in services.” As a business that provides shipping and logistics services, can you discuss how this will impact your franchise, directly?

Ms. HUBERMAN. I think it will impact my customers in a way that makes—levels the playing field and allows them to export their goods and services. It will affect my business because I will receive revenue, I will be able to hire more people, and pay more taxes as we were talking about, which is not necessarily a good thing for me anyway. But that is what it is about. It is about leveling the playing field for all of the small businesses who cannot get their products overseas. I mean, the delays that we have with getting just simple things delivered is just ridiculous for reasons like the ones I mentioned earlier.

Ms. VELAZQUEZ. And what is the practical impact of these delays on small exporters’ bottom line?

Ms. HUBERMAN. They do not ship. They do not do it. They would rather give up the sale than deal with those delays because they end up looking back to the customers on the backend, or their items might spoil or they will get—sometimes a lot of things get lost in customs depending what countries you are shipping to. Things just happen to disappear once they get into the hands of customs officials overseas.

Ms. VELAZQUEZ. Thank you. Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman.

I wonder if the panel could just briefly answer this. If you think that the U.S. economy and small business exporters in particular are better off with a free trade agreement in place or worse off? I want to maybe start with you, Ms. Johnson.

Ms. JOHNSON. Well, as we look at the competition and we see that all the free trade agreements that they have been making with different countries, I think that we have to be also to be competitive; that we have to be in the game also. And so those are very important to us, whatever trade agreements they are. As I said, our future is dependent on being able to export. Small business is the engine that makes the United States work. And so true for farmers, also. As I said, we are only 5 percent of the population in the world now, so our growth potential depends on good trade policy and FTAs.

Mr. COFFMAN. Mr. Fishback.

Mr. FISHBACK. The last statistic with free trade agreements is that we actually have a trade surplus with any countries with whom we have a trade agreement. Having a trade agreement in place for small business exports only increases our ability to increase our sales in a given market because it reduces our costs and improves the avenues that we have for actually facilitating the trade; the more free trade agreements, the better, from my perspective, for a small business. In fact, I was just in South Africa a month and a half ago doing a Gold Key service in Cape Town, and the president came out with his “Doing Business in Africa” campaign last year but did not back it up with any support for small businesses. So while I was there, I found out that the European Union has a trade agreement with South Africa, which could re-

duce some of their tariff rates by 20 percent versus the ones that I am paying. And so if we are going to come out with some type of agenda item like that, maybe we should back it up with exploring new free trade agreements with companies to help us out.

Mr. COFFMAN. Mr. Hufbauer.

Mr. HUFBAUER. Thanks.

I think that free trade agreements are a very big plus for small business. There is a lot of evidence that trade internationally is much smaller than it is domestically, and there are a lot of barriers and free trade agreements tend to cut into the barriers.

The one additional point I would make is that it is really too costly and too cumbersome for a small business firm to bring a dispute under a trade agreement. These things, these disputes that you read about, the legal costs start at \$100,000, and you can quickly march up to a million dollars. So what the government should do, in my opinion, and of course, it will require money, is be more aggressive on looking at barriers which adversely affect small businesses and bringing cases on their behalf. GE can take care of itself but small business firms cannot.

Mr. COFFMAN. Ms. Huberman.

Ms. HUBERMAN. I can only speak to it from a practical everyday interaction with my customers, and I can tell you that the trade deal we have with Canada makes my customers' ability to get their products into Canada much easier than any place else right now.

Mr. COFFMAN. Well, I want to thank you all for your testimony here today. I think that small business is the engine that certainly drives economic development in this country; that drives job creation. And so I think whatever we can do to facilitate more export markets, particularly for small business, I think is such a plus for the U.S. economy.

Mr. Chairman, I yield back.

Chairman GRAVES. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

I am just really happy to hear all the stories of small business exporting, and you are right, 95 percent of the people are elsewhere. Every small business wants to grow, and I think every small business wants to export, and most of them do not. They look at it. They know they should be doing it.

So I guess Mr. Fishback is somebody who sells what you sell. What advice would you give to that small business person, and what role do our free trade agreements play versus just all the regulations getting started. How do they get started?

Mr. FISHBACK. That is a great question. And your Committee is actually working on some things to assist that by looking at ways to take government resources and blend them together to make more clear points of contact for companies that want to start exporting. And it comes down to education; making sure that there are channels for those companies to get education on exporting, which comes through looking at what we currently have in place with states and with federal governments, finding ways to bring the state and the federal government together so they can work together to train these people so that they are able to do it.

In looking at that, our belief is that the SBDCs in the states do the best job of the initial counseling with companies that are new to exporting or wanting to export. In Massachusetts, we have the Mass Export Center that does a fantastic job and should potentially be considered a model for the nation. And then once they have that understanding of how it works, it is basically a template that you can follow into other markets and then bring in the UCX and the commercial services—

Mr. COLLINS. Do you think finding a partner, I mean, in some cases the government helping you find that partner in that first key export market where you can get your product over there but you have got somebody doing the heavy lifting is key to a new small business putting their toe in the water?

Mr. FISHBACK. That is a huge amount of assistance. I did three Gold Key services here already this year using the services of the U.S. Commercial Service, and the commercial attaché at the embassies overseas. It provides companies with access to a group of prequalified companies that they would not normally be able to get in front of working with the U.S. government provides instant credibility for these new export companies. And it works. And one of the points that I made in my testimony was that the U.S. Commercial Service is looking to increase costs on small businesses for their international services, and if they do that then small businesses will not use them because it will be too expensive. And for us, by using them we have seen and experienced quick and good sales growth.

For example, I was in New Zealand about a month ago doing a Gold Key service in Auckland, signed up a new distributor right away. The Gold Key cost \$700. We have already had about \$14,000–\$15,000 in sales from it. So you already see the revenue generation that can happen from it. So those services, the “boots on the ground” overseas are essential for our companies to be able to compete.

Mr. COLLINS. Good. Thank you.

One other interesting thing as we look at the TPP, and there is concern I think with Japan and their currency and their situation with the value of their currency dropping, and I have heard folk talk. What role does the trade representative play in the currency world in free trade versus Treasury? I wonder, Mr. Hufbauer, if you have just got a thought on that.

Mr. HUFBAUER. I could give you a three hour dissertation but that is not what you want.

Mr. COLLINS. No, we have one minute and 20 seconds.

Mr. HUFBAUER. Exactly.

The turf between USTR and Treasury is closely guarded. Treasury does not want USTR to be involved in this area, and they have been very explicit on that when I was in government 30 years ago; the same story today. But there is growing recognition that the currency issue is critical in trade agreements because of the argument, you know, currencies can drop 5 percent overnight. You spend three years negotiating tariffs down. So I expect this will play a role in the TPP, and maybe in TTIP as well.

Mr. COLLINS. Thank you.

Mr. Chairman, I yield back.

Chairman GRAVES. Mr. King.

Mr. KING. Thank you, Mr. Chairman.

I want to thank the witnesses for your testimony. It is not always an easy thing to leave your busy lives and come here to help advise us on the path that we need to take, plus sometimes it just puts us in a position where we are given advice on down the line as well.

But I was interested in what I heard in your testimony, Ms. Johnson, when you were speaking, I believe, of the Trans-Pacific partnership, asking for a comprehensive agreement. And I like the language, "Nothing is agreed to until everything is agreed to." And I was not clear whether that also applies to TTIP as well as TTP—TPP, excuse me.

Ms. JOHNSON. Thank you for that question.

Yes, it does. I think that is a key point that you picked up on is it has to be comprehensive, and so we said that it will be a template for TPP, so a comprehensive plan on TTIP and then comprehensive plan on TPP also is I think one of the most critical recommendations that we would give about going forward.

Mr. KING. And then to embellish that point, when I sit down and talk to the Europeans about trade, and I do more of that than I ever thought I would coming into this job, they are constantly trying to pull us back from why do they not say—they say, why do you not exempt GMOs and then we will apply our sanitary and phytosanitary specs to your things, and then we can go ahead and do business. I would guess that you have been in some of those negotiations I have just described. Could you describe some of that for the panel, please?

Ms. JOHNSON. Well, I think the point that you bring up is, and my point in the testimony, is that it has to be a comprehensive package; that we cannot leave certain things out to renegotiate later because it will come back to really hurt agriculture. So, you know, SPS has been used in the E.U. to prevent a lot of our ag products, a lot of our corn products, livestock issues, our production practices here. They have used the SPS against us. So I believe it is very important that we make sure that we do not leave anything off the table; we do it right the first time.

Mr. KING. And I point out also it is really interesting that I can sit down with, say, German intellectuals, industrialists, or agriculture people and they all come to the same point. It is agriculture that is our barrier in our trade, and most everything else we seem to be able to get worked out but agriculture is a barrier. Is that your experience, too, Ms. Johnson?

Ms. JOHNSON. Yes, it is. And, you know, I am still hopeful that once in a while you hear something optimistic about the comment out of the U.K. now that maybe the E.U. should take a different look at biotech. So we are still very hopeful that that will happen, and as America's National Corn Growers Association, we have been working with the Corn Growers Associations in Brazil and Argentina saying yes, we are competitors, but there are certain things that we need to collaborate on. And it is just what you are saying, is the trade barriers, the trade disruptions that are due to biotechnology and modern farm practices hurt everybody and curtain

the ability of agriculture no matter where you are from to be able to grow in a global marketplace.

Mr. KING. And I recall as GMO, roundup ready soybeans came to the floor in Argentina but not Brazil, but they found their way across the border and essentially washed over the continent, and now I see that the European Union seems to be the citadel that is locking those products out. And I think that they are going to end up being—they will be the last stand but eventually productivity and the demands of that and the health of the food will become apparent.

I spoke with an elected member of the German Bundestag who represented a region—I better not say where because I will identify him then—but he said, “I agree with you that there is no sound science that says that GMOs are a risk to healthy, but we have to take this position.” And I said, “Why do you not just take my position?” He said, “Well, I cannot do that; I am elected.” I said, “How about I will go with you and I can take this position and you can nod your head?” And he said, “I would be voted out of office.” It is a political position that has grown. The Green Party, for example, in some countries in Western Europe, it does not exist anymore because it has been so absorbed by the other parties. It is not true in very case, but I think we have to just keep pushing the GMOs and push the sound science that we have. If we do that then eventually this trade component of this thing will wash over that continent and we will get it done.

But I wanted to turn quickly to Mr. Fishback, and you mentioned regulations, how difficult it is to fill all the paperwork out. Have you compared how difficult it is for someone who wants to export to the United States when they fill out our paperwork? Are we also putting the barrier up like that for them?

Mr. FISHBACK. That is a great question. And I have not had the opportunity to do that but my natural reaction is they must be doing something if they are not going to budget on their end.

Mr. COLLINS. The clock has run down. I appreciate all the witnesses. And Mr. Chairman, I thank you and I yield back the balance of my time.

Chairman GRAVES. Thank you, Chairman.

Mr. HANNA. Mr. Hufbauer, you mentioned, to pick up on what Ms. Velázquez says, the ranking member, things that encourage other companies to come back. You mentioned energy, which is yet to be seen but is clearly on the horizon. You mentioned productivity.

I am going to ask you two questions. What other things are there? I mean, as an economist, what other items specifically are there? And then I want to dig a little deeper. In your testimony you talk about transportation and how other countries are so far ahead of us. And I wondered if you could be more specific about both of those items. The reason companies are coming back besides those two and how big of a barrier and how big a problem transportation is and how you might quantify that for me.

Mr. HUFBAUER. Thank you, Congressman. Let me start with your last point on transportation.

The way this is typically measured is the turnaround time in ports and the cost per container. No one is better than Singapore

on both counts. Singapore's cost for entering a container is about \$400, is a standard container. In the U.S. it is about \$1,800. That is a big difference. The turnaround time in Singapore, but also impressively in Shanghai, Hong Kong, and a few other ports around the world, you know, that is 24 hours. We are not there. We take longer. Long Beach is really congested and you can go right through a lot of ports. You can find their turnaround times. World Bank does this. And we are up into days. And that adds to the expense, and then we do not have the intermodal transportation we should from some of our ports to the inland. The rail does not connect as efficiently as it should or the roads for the trucks do not connect.

You know, we are way behind, and not just Asia. We are behind Netherlands. We are behind the U.K. We are not good at ports the way we were years ago comparatively. And we are behind Canada. That would be my comment on transportation.

On air transportation cargo, we are quite good. We are not maybe the best but we are very high on that. And obviously, for an increasing amount of trade done by Internet and so forth we are top of the game. So that is a big plus.

Now, as for other factors that are going to favor the U.S. economy—I do not want to be all negative—but another way we are relatively losing—not in an absolute sense but relative to other countries—is our educational system, as I am sure you have heard many times, is not keeping us far ahead of the competition. And there a lot of things in technical vocational education and so forth where we could learn from other countries, but still we are tops but others are catching up with us on the education, engineering sides, the whole lot of it. But still we are tops and we do produce and extremely wide variety of products and goods and services which other countries do not usually have that same variety, and that is a great strength of the U.S. because you can have these networks which combine all these inputs. We are very inventive in terms of biotech and medical and so forth and so on. Those are our strengths going forward and I think they will prevail.

Mr. HANNA. And other reasons why companies might come here that once looked to leave?

Mr. HUFBAUER. Well, it is those strengths. Let me just be very specific. On technical vocational—the Germans pioneered this—they linked up their equivalent of our technical vocational schools with companies. We are not doing that. That is a reason companies will locate here because they can get a college, whatever it calls itself, to train people for the very specific kind of either computer or mechanical or whatever that they need. And that is a big reason to be here.

In terms of labor relations, you know, every country has difficulties from time to time, strikes. Our strike rate or labor disturbance rate is very low compared to other countries. You have a good workforce in this country, and that is a big plus. And we are not tops. Tops in terms of honesty for countries goes to Finland, but we are not too far down. We are like five or six on the World Bank rankings, and that means we are a very honest country, and that makes a lot of difference to companies who do not want to have to deal with corruption.

Mr. HANNA. Thank you for that, sir. I yield back.

Chairman GRAVES. I have one question.

As far as the U.S. Trade Representative goes, how would each of you grade his performance in terms of working with small businesses to try and improve some of the prospects out there?

Ms. JOHNSON. I do not really have a good answer for that because I do not know enough to comment on it, but one thing I would like to say is that I think good trade policy is really necessary to move everything forward for all of us. And I was asked earlier about jobs and how important that is and how important it is for the USTR for us in agriculture. And we form partnerships with public-private partnership with the government for market access programs and foreign market development, and so the statistics from that is every billion dollars that we have in ag exports that the USTR helps us with supports approximately 6,800 U.S. jobs. So extremely important to us that position.

Chairman GRAVES. Mr. Fishback.

Mr. FISHBACK. Yeah. I would say that they have done a good job in the last couple of years of reaching out to small businesses, even creating small business liaisons within different departments to specifically address the needs of small businesses. Now, the key is that that continues. Now we have a new trade representative who follows the president's agenda but also has his own line items that he wants to run through as well, so the key now is that they have started to reach out to small businesses more, which we appreciate. I think that just needs to continue moving forward.

Chairman GRAVES. Mr. Hufbauer.

Mr. HUFBAUER. I will be a little more negative.

The USTR is absolutely overwhelmed. Our trade ministry compared to the trade ministry of other countries is very small and the budget was cut as Ranking Member Velázquez said, and they are suffering from the sequester as well.

I was recently in Surabaya—and I do not know if you travel to Indonesia very much. It is a long trip. It is an exhausting trip. I was fortunate to go business class. The U.S. reps went economy class. I mean, that is a tough trip and they are exhausted when they get there. They are younger than I am. They marshaled through the meetings. There was an Asia-Pacific Economic Cooperation (APEC) meeting. This is amazing that we do what we do with the budget that we give—that we as a country give USTR. And I just do not think that they have enough resources to do what they are supposed to do. And certainly, I would think they need more resources to do a proper job for small business.

Ms. HUBERMAN. And chairman, I appreciate you asking me the question but I really do not feel qualified to answer it.

Chairman GRAVES. Mr. Huelskamp.

Mr. HUELSKAMP. Thank you, Mr. Chairman. I appreciate the opportunity to ask some questions.

Ms. Johnson, particularly as a farmer, good to see you here, and I look at our ag exports and the opportunities out there, I mean, it is tremendous. And as we discuss our Farm Bill, I hope we continue to look forward to the export side of the equation because that is tremendous growth and resulting prosperity for rural Amer-

ica. Whether it be corn or other commodities, what do you see as the best prospects for ag exports around the world?

Ms. JOHNSON. That is a great question. And I think one thing that we are very optimistic about is the potential for growth for rural communities and farmers and all ag exports and corn and coal products. So corn and DDGs and livestock, especially now when we are looking at countries like China, considering what food security means to them and what they have to do and what they have to learn from us, possibly the Smithfield purchase. And that will translate into millions of dollars worth of exports, whether it is raw greens or it is meats. So I think that potential is huge.

Before you came in we talked about how we are 5 percent of the world's population now. So if we are going to look at what our future is going to look like, we are going to have to figure this out. So I really appreciate the Committee's recognition about how important exports are to small businesses, including agriculture.

Mr. HUELSKAMP. And in your opinion—I appreciate that, Ms. Johnson—in your opinion, whether it be the U.S. trade representative or other offices, do you think they do a sufficient enough job promoting ag exports? Oftentimes, those of us in ag country feel that perhaps it is not high on the agenda for these big negotiations and happens to get lost. Past administrations have clearly not been very supportive of agriculture. But I am just curious of your current take on the efforts and negotiations.

Ms. JOHNSON. Thank you for that question. That is why I am really thankful to be at the table today and to be able to give input on what our recommendations would be going forward with TPP and TTIP is because we think they have to be comprehensive trade agreements and that no single thing is agreed to until everything is agreed to and how important it is to agriculture. Now that that framework is established going forward, I think it is critical to making these trade agreements fruitful for the future of agriculture and the future of rural America and small businesses in general.

Mr. HUELSKAMP. Absolutely. And whether it is the beef industry, which is very big in my district; wheat, which half of it leaves the country generally; and numerous products, what is driving our growth and prosperity in rural America is that ability to export and feed the world, fuel the world, and in some cases, clothe the world. And I appreciate the chairman's bringing folks in here to talk about that because it has an impact obviously on some of the very large businesses in this country, but for the very small businesses it is amazing how highly dependent they are on export markets, whether it is another 20 cents on the price of a bushel of corn or whatever the numbers are today, it makes an incredible difference in rural America. So I appreciate your testimony.

I yield back.

Ms. JOHNSON. Thank you.

Chairman GRAVES. Go ahead.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Hufbauer, and I invite anyone on the panel to comment, given the fact that here we are discussing the important role of small businesses as exporters—98 percent of all exporters are small businesses—they represent 30 percent of the all the revenues when it comes to export-import. And 60 percent of small exporters enter

one market, and in that market only one customer. So there is so much that can be done to increase the role of small exporters.

My question to you is we have the Office of the USTR, and in that office we do not have anyone whose sole responsibility is to be at the table whenever we are negotiating any trade agreements that represent the interests of small businesses.

Mr. HUFBAUER. I could not agree with you more. They are stretched but if you want it to happen you have to kind of legislate on a line item basis or something to have the kind of people—they might come from the Small Business Administration or whatever—who are delegated to USTR to really zero in on the problems of the, for example, the health care products industry might be quite different than the problems of say the software, the small software products and so forth. So the person or persons have to have some industry expertise and really have to drill down into the barriers. I will not go on at length, but I did review a thesis from a very able Ph.D. student at the Hebrew University a couple of years ago who looked into small business representation in the WTO and found it was lacking. Generally, it is not just the U.S. Generally, small business just does not get the attention it deserves given the potential that you have outlined. Thank you.

Ms. VELAZQUEZ. Mr. Fishback.

Mr. FISHBACK. I would echo those remarks. I think it is essential, as you mentioned, just based on the statements that you made that we have a seat at the table—that small business have a seat at the table during these trade negotiations.

I know recently—and I mentioned Brazil previously as a probable market for small business exporters—I know recently there was a Federal Register notice to try to get a small business executive as a part of the CEO Forum. So at least that is a voice at the table. But to the extent that you can have a small business government official at the table advocating on behalf of small businesses who like the members of the panel understand what it takes to run a small business is essential.

Ms. VELAZQUEZ. Ms. Johnson.

Ms. JOHNSON. I think as Congressman Huelskamp outlined for us, that certainly in these new, huge opportunities in trade we do not want agriculture left out of the picture as it has sometimes in the past. So I would appreciate a voice at the table and make sure that the agreements—because agriculture is so important to our country, it is also important for the growth of our country. And I know you outlined some good points but it is also the way we are going to bring the next generation back not just to farming but to small businesses and all those processes that go down the line for value added processes and products, whether it is livestock and corn products.

Ms. VELAZQUEZ. Thank you.

Thank you, Mr. Chairman.

Chairman GRAVES. With that, I want to thank you all for participating today. This Committee is going to continue to make sure that the small businesses are a priority for the U.S. Trade Representative during international trade negotiations. And we have invited Ambassador Froman to address our Committee on the status of the negotiations and how the administration is working to

help increase exports for small businesses, and we look forward to hearing—or hosting him, I guess, later this year.

But with that, I would ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record. Without objection that is so ordered.

And with that the hearing is adjourned. Thank you.

[Whereupon, at 2:53 p.m., the Committee was adjourned.]

APPENDIX



**National Corn Growers Association
Testimony of
Pam Johnson, President
before the
United State House of Representatives
Committee on Small Business
Regarding
Ready to Export: Small Business Policy Recommendations for USTR
June 26, 2013**

Chairman Graves, Ranking Member Velazquez and members of the committee, thank you for the opportunity to testify about exports and policy recommendations for the United State Trade Representative (USTR). My name is Pam Johnson. I am a 6th generation farmer from Floyd, Iowa where I raise corn and soybeans with my husband and two sons. I currently serve as President of the National Corn Growers Association (NCGA). NCGA was founded in 1957 and represents over 38,000 dues-paying corn growers. NCGA and its affiliated state associations work together to help protect and advance corn growers' interests. We support a consistent U.S. trade policy so that corn and corn products are not disadvantaged for the benefit of another sector.

NCGA members have much to gain from government policies that encourage exports and facilitate small, family-owned farms entering the global marketplace. Developing new markets for our country's agricultural products will help our sector lead the nation in economic growth and international competitiveness. From a corn grower's perspective, new trade initiatives will result in benefits far beyond increasing international markets for U.S. corn. NCGA recognizes any opportunity to increase access to downstream, value-added products as a benefit to the U.S. economy.

The administration's current trade agenda is ambitious and complex. Negotiating simultaneously with the European Union and Asia Pacific countries will require a tremendous amount of resources and, perhaps more importantly, a well defined set of principles to guide trade talks. During my testimony, I hope to emphasize recommendations that will maximize family farmers' access to foreign markets.

U.S. Production and Export Demand

On May 30, 2013 USDA released its fourth Outlook for U.S. Agriculture Trade in fiscal year 2013. USDA projects \$139.5 billion in agricultural exports in FY 2013, which if realized would be a new record. Since 2009, U.S. agricultural exports have climbed from \$96.3 billion to the most-recent forecast of \$139.5 billion. USDA Secretary Vilsack noted that agricultural exports support more than one million jobs in the United States. If crafted properly, with an emphasis on increasing opportunities for family farmers, new trade initiatives will help farmers and ranchers continue this record breaking pace.

The United States is the largest corn producer and exporter in the world, and exports of corn and corn products are essential to producer income. During the 2012 marketing year, the United States exported 950 million bushels of corn worldwide. Corn products such as distiller's dried grains (DDGS) represent a growing export market for domestic producers.

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Production growth and consistency make the United States both a reliable supplier of grain and a steadfast advocate for new export markets for corn and livestock products. Despite numerous weather issues in 2012, U.S. corn growers produced over 10 billion bushels of corn. Mother Nature has ensured that this year is also off to a challenging start. However, the rebounds witnessed in previous years indicate growers' ability to harvest a record crop.

Transatlantic Trade and Investment Partnership

Currently, USTR is preparing for the first round of Transatlantic Trade and Investment Partnership (TTIP) negotiations. Since the inception of the U.S.-EU High Level Working Group in November 2011, NCGA has joined other agricultural trade associations in calling for the trade agreement to be comprehensive and to tackle the significant hurdles that must be overcome when dealing with agricultural products. For NCGA members, the biggest challenge is approval of corn and corn products derived through biotechnology. While the EU is a market that holds great potential, that potential is often overshadowed by delays in approvals and regulatory decisions dictated by political pressure and not science-based evaluations.

Upcoming negotiations will require the EU to negotiate and implement the type of high-standard, 21st-century agreement that is central to the Obama administration's trade policy efforts. Furthermore, EU regulatory measures often conflict with both U.S. interests and World Trade Organization (WTO) rules. Examples include biotechnology approval and labeling regulations that restrict U.S. corn and refined corn product exports and restrictions on production methods in poultry and pork.

In 2006, NCGA urged USTR to insist the EU honor its WTO obligations and end the moratorium on biotechnology products. We noted the WTO panel's conclusions were a "meaningful first step in removing the barriers to trade of biotech agriculture and food products imposed by the EU." The key conclusions of the draft interim report included:

- International trade rules fully support trade in products of biotechnology for planting, processing and marketing, subject to science-based regulation;
- De facto bans or moratoria on approvals by Europe and other WTO member countries will not escape scrutiny;
- The Biosafety Protocol and the Convention on Biodiversity are not relevant to the interpretation of the issues on the moratorium;
- Measures taken under the guise of the precautionary principle, absent relevant scientific evidence, are not justified; and
- Politically motivated bans or moratoria by WTO member states are not consistent with members' WTO obligations.

As was true in 2006, unjustified regulations are costing family farmers millions in lost sales to the EU and could result in even greater losses of U.S. exports if they are adopted by other countries around the globe.

NCGA members do not support a "take what you can get" approach to a bilateral agreement with the EU. The EU imposes myriad restrictions on U.S. agricultural products in the form of sanitary and phytosanitary measures. EU acceptance of internationally agreed standards and the adoption of science-based risk assessments must be an important part of improving trade relations. We urge U.S. negotiators to work with the European Food Safety Authority and the European Parliament to achieve higher levels of regulatory convergence and cooperation through alignment of standards and practices, by means of harmonization, mutual recognition or other methods.

We believe that the best way to achieve an outcome on these matters that the food and agricultural sector can strongly support is to use the Trans-Pacific Partnership (TPP) negotiating structure as the template for the TTIP.

Trans Pacific Partnership

TPP is intended to be a comprehensive agreement, covering all sectors without exceptions- all topics are to be concluded as a "single undertaking," which means that nothing is agreed to until everything is agreed to. Moreover, TPP holds tremendous potential for economically significant market access opportunities. NCGA supports the TPP negotiations and appreciates the efforts of U.S. trade officials to work with importing trading partners including Canada, Mexico and Japan to facilitate full participation in the historic agreement. It is critical that Japan, in particular, recognize and accept that TPP is a comprehensive agreement.

Successful integration of Japan into TPP talks can spur even greater interest among other Asia-Pacific countries, which could lead to the type of Asia-Pacific regional agreement envisioned by the administration when it embarked on TPP.

As USTR aims to complete TPP talks this year, we appreciate the efforts of Congress to ensure family farmers are given an opportunity to provide input. In April, House Ways and Means Subcommittee Chairman Nunes requested comments from the U.S. agriculture community regarding trade negotiations and dispute resolution for agriculture. NCGA joined a diverse coalition in support of requiring that TPP SPS provisions be subject to dispute settlement, particularly in areas that build upon or clarify existing WTO commitments. I stress that not subjecting critically important SPS provisions to dispute resolution sends a signal that family farmers' issues are a low priority in trade dispute resolution.

NCGA believes that there needs to be improvements in how the U.S. government resolves agricultural trade issues. However, this should not be a substitute for enforcing TPP SPS provisions through a legal process. We also support the inclusion in TPP of a Rapid Response Mechanism (RRM) to provide for greater trade facilitation, particularly with respect to shipment-specific SPS and TBT matters.

Trade Policy and Competitiveness

A growing number of free trade agreements among U.S. competitors have prompted questions about whether U.S. agricultural exporters may lose a share of the global market. Important agricultural exporters like the European Union and Canada have been particularly active in negotiating FTAs. As a producer, it is frustrating to watch these nations achieve preferential access to markets and secure a competitive edge over U.S. corn and corn products.

USTR must keep the concept of competitiveness in mind when embarking in trade talks. Our members want to preserve current export markets and significantly increase demand for corn through opportunities in value-added corn products.

As previously mentioned, our members are especially concerned by non-tariff barriers to trade in corn and corn products. In May, we applauded a bipartisan effort by Senators Stabenow and Grassley who sent a letter signed by 26 senators to USDA Secretary Vilsack and then Acting USTR Marantis to address international regulatory challenges for agricultural products derived from biotechnology. As the letter states, American farmers have readily adopted biotechnology, and advancements in seed technology are helping producers meet the needs of an expanding international marketplace. Trade disruptions caused by barriers to biotechnology stand to hurt the entire value chain, from technology

developers to grain exporters and international customers. We encourage USTR to strongly consider the letter and work to improve the international regulatory environment.

Conclusion

Agricultural producers succeed when industry and government work side-by-side. As a farmer, I cannot and should not assume that our industry will be taken care of in TPP or TTIP. It is critical that U.S. negotiators have an appreciation for how increasing exports translates into benefits for family farmers. The U.S. economy will not benefit from agriculture issues being placed on a "to-do" list. Now is the perfect time to eliminate long-standing barriers to agricultural exports and promote policies that bring economic opportunity back to rural America.

NCGA remains committed to the development and maintenance of fair and open global trade policies. We appreciate efforts by U.S. trade negotiators to increase meaningful and achievable access to foreign markets. Moreover, U.S. corn producers stand ready to develop and provide corn products to meet the demands of modern global consumption.

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Testimony of Mr. Brooke Fishback, MBA, CGBP

International Sales Manager

On behalf of Health Enterprises, Inc.

House Committee on Small Business

Hearing:

READY TO EXPORT: SMALL BUSINESS POLICY
RECOMMENDATIONS FOR USTR

June 26, 2013

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Introduction

Chairman Graves, Ranking Member Velazquez and members of the Committee, thank you for the invitation to testify at this hearing of the House Committee on Small Business on the subject of “Ready to Export: Small Business Policy Recommendations for USTR”, and for the opportunity to share my views and the experiences of our company, Health Enterprises, Inc., with the members of the Committee.

Witness Background

My name is Mr. Brooke Fishback, and I am the international sales manager for Health Enterprises, Inc. I have over 15 years of international experience working with customers in over 60 countries around the world, and having spent substantial time in almost 50. I hold a Bachelor of Science Degree in International Business and German, a MBA from McGill University, and am a NASBITE “Certified Global Business Professional”. I also serve on the U.S. Federal Government Industry Trade Advisory Committee on Small & Minority Business, “ITAC 11”, and the Massachusetts DEC (District Export Council).

Health Enterprises is a leading manufacturer and distributor of medical compliance (pill boxes, pill splitters, dosage droppers), 1st Aid, Hot/Cold, Sports Therapy, Home Health, Ear Care, and Head Lice Care products, and is a true American success story. In the early 1970’s Arthur Leman founded the company in the basement of his home, and sold products door-to-door to independent pharmacies. Today, still family owned and operated, we sell our products under our Acu-Life brand and as Private Label to over 25,000 retail stores in the U.S., and have exported our products to over 60 countries worldwide. For our commitment to global sales, we were awarded a *Commercial News USA* Consumer Goods “Exporter of the Year” Award, Massachusetts Alliance for International Business “Ambassador’s Award” for excellence in international trade, and President’s “E Award”; which was presented at a White House ceremony.

Even with all of this growth – domestically and internationally – we are still a “Small Business”, with fewer than 50 employees involved in sales/marketing, production, and logistics at our headquarters in North Attleboro, Massachusetts, and the equivalent of 2 full time employees working in exporting. That being the case, and similar to SMEs throughout the U.S., we do not have large legal teams or in-house regulatory departments to navigate complicated international rules for global commerce; instead we rely on the USTR to negotiate beneficial, easy to understand trade agreements, so that we can sell our products to those 95% of consumers that live outside of our domestic market.

Any assistance that the USTR can provide in improving the international trade situation for U.S. companies – primarily through Trade Agreements – is greatly appreciated. SMEs are the engines of export growth; and exporting stimulates the economy and creates good American jobs.

Subject of Testimony

I will discuss action items for USTR to assist U.S. SMEs. The views I express are my own, and are on behalf of Health Enterprises, Inc.

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Trade Agreements

Trade Agreements have traditionally focused on reducing tariff rates. In entering into new trade agreements, and reviewing old agreements, a focus needs to be made on removing non-tariff barriers to trade with specific focus on “regulatory cohesion” and “standards harmonization”. Our philosophy should be that “if it is legally sold in the U.S., then it should be legally sold in FTA partner countries, without the need for costly and/or time-consuming re-registration with local authorities”.

USTR should strive to conclude Trans Pacific Partnership (TPP) negotiations as soon as possible, so that we can begin receiving the benefits of the trade agreement. Currently, around 36% of our export sales are directed to TPP negotiating countries, with Australia being our top market. We are excited about exploring new sales opportunities in Vietnam and Japan, and would estimate the markets worth 10’s of 1,000’s of dollars per year in new business.

I was pleased to hear the announcement at the G8 meeting of the beginning of talks for a Transatlantic Trade & Investment Partnership (TTIP)! Now USTR should energetically enter into these negotiations. Around 38% of our export sales are directed to EU member states, with the UK being our top market. Tariff rates between the U.S. and EU are already relatively low, and so the key will be to find common ground as it pertains to non-tariff barriers, including standards and regulatory cohesion. We currently encounter issues of costly and time-consuming re-registration with our FDA-registered “Class I Medical Devices” in the European Union. See Appendix I for a copy of a letter that I sent previously in response to a Federal Register notice which details the challenges we encounter trying to sell a simple “finger splint” in the E.U., along with some suggestions as to how to improve the system.

Other Initiatives

USTR should actively review and seek out new opportunities for free trade agreements. For example, late last year, the President introduced his “Doing Business in Africa Campaign”. Sounds good. We currently sell a mix of our products in South Africa, and are trying to grow this business. The EU has a trade agreement with South Africa giving them preferential duty rates Vs. our products and making their prices more competitive. If the U.S. is promoting a “Doing Business in Africa Campaign”, should we also have a trade agreement with South Africa and other African nations?

USTR needs to ensure that countries to whom we grant preferential duty rates to enter our market – under the Generalized System of Preferences (GSP) or other programs - also grant U.S. exporters equitable access to their markets. Brazil, for example, represents the largest market in Latin America, and should theoretically be a good market for U.S. exporters. Problem is, they have high duties/taxes, regulatory and other non-tariff barriers to keep U.S. exports out. Appendix II compares the duties/taxes levied by Brazil on imports from the U.S. for a set of products that we would like to sell in Brazil with the duties/taxes levied by the U.S. on imports from Brazil for the same products. The data is from 2010-11, but would be similar today. Note also that the mix of products that we would like to sell would also require registration with their health authority, ANVISA – a process which costs thousands of dollars and which I am told can take years.

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Recommendations

- 1) **Free Trade** - USTR needs to maintain an aggressive trade agenda to assist SMEs in growing their international business;
- 2) **Trade Promotion Authority (TPA)** – the President needs TPA for “good faith” trade negotiations with other countries – trade agreements should not be renegotiated when sent to Congress, but be subject to an “up or down” vote;
- 3) **Exporter Education** – ensure sufficient funding for the SBA’s Small Business Development Centers so that they can provide export education for U.S. small businesses. In conjunction, we support your Committee’s work in exploring additional opportunities for coordinating state and federal trade agencies to assist small businesses;
- 4) **Export Promotion** – ensure sufficient funding for the US Commercial Service – and in particular their overseas offices which provide the “boots on the ground” support that we need for market information, and which perform the Gold Key match-making service; which arranges meetings for U.S. companies with pre-screened potential partners in foreign countries. Ensure that costs for U.S. Commercial Service services – like their Gold Key - remain affordable, so that small businesses can participate.

Thank you again for the opportunity to testify, I look forward to your questions.

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APPENDIX I

October 19, 2012

Mr. David Weiner, Deputy Assistant U.S. Trade Representative for Europe
 Office of the United States Trade Representative for Europe
 600 17th Street, N.W.,
 Washington, DC 20508

**Comments in Response to Request for Public Comment:
 U.S. – E.U. Regulatory Compatibility**

Docket Number: USTR-2012-0028

Dear Mr. David Weiner,

Our company, Health Enterprises, is a SME currently selling our ranges of consumer health products in the E.U. In general, our products are considered to be “Class I Medical Devices (non sterile, non measuring)” – the safest category for Medical Devices (for example, a low cost “Finger Splint” – the kind that you would buy in the 1st Aid aisle of a CVS Pharmacy for a few dollars) – and they are registered with the FDA (in their Medical Device database @ www.fda.gov) under our “Owner Operator Number: 9022512”, for your reference.

U.S. and E.U. regulators have a similar degree of consumer safety (the purpose of regulating Medical Devices is “safety”) in mind when regulating Medical Devices, and the philosophy should be “if a Medical Device is legally sold in the U.S., then it should also be legally sold in the E.U.” (and vice versa). Let us start with “Class I Medical Devices (non sterile, non measuring)” – the safest category for Medical Devices – as a “test case” to get this process started.

Specific to your questions:

- 1) Regulatory agencies involved are the FDA in the U.S., and various Ministries of Health in the E.U. Note that the way it is supposed to work is that if you have a medical device legally registered with a Ministry of Health in an E.U. member country, then the medical device is legally sold throughout the E.U. However, in practice different E.U. member countries often require re-registration.
- 2) Pertinent directives are the FDA Medical Device Directives here in the U.S., and European Medical Devices Directive 93/42/EEC.
- 3) For “Class I Medical Devices (non sterile, non measuring)”, the laws are similar and require that companies pay a nominal fee and self-register the product in a central database (FDA Medical Device database here in the U.S., and the database for the Ministry of Health in a given E.U. member state). So, as a U.S. company we register our products with the FDA. To sell in the E.U., we also need to register our products with a Ministry of Health (possibly more than one!) for an E.U. member state. To do this, we need to first appoint a “European Authorized Representative” or EAR (a legal corporate entity with a physical office in the E.U.). This can take a number of forms, but in our case we contracted the work of an EAR to whom we pay a few thousand dollars per year + hourly fees (which is at the low end of the price spectrum for these services). We then have to pay our EAR an hourly fee to register our products with the Ministry of Health, and pay the Ministry of Health a fee per item and annual fee to maintain the database.

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- 4) "Class I Medical Devices (non sterile, non measuring)" are considered generally safe. Allow companies in the U.S. and E.U. to register their products with the Ministry of Health for their home country. These are public databases that anyone can access to track a product and confirm that it is registered – the purpose of these databases is traceability; knowing which products are on the market and which companies produce them, so that in the event of a problem with a product, the manufacturer can be easily found and contacted. Instead of requiring double registration (both in the U.S. and the E.U.) where the costs involved add no value to a manufacturer, require that companies maintain sufficient product liability coverage (perhaps US\$2,000,000) to cover any product issues. Again, we are talking about simple products, like a low cost "Finger Splint" – the kind that you would buy in the 1st Aid aisle of a CVS Pharmacy for a few dollars.
- 5) Medical Device directives in the U.S. and E.U. need to be harmonized, and currently have many issues, aside from double registration, and including different standards used in certifying products. Best is to start with "Class I Medical Devices (non sterile, non measuring)", as they are simple products which are self-registered as a "test case" of how regulatory cohesion can begin, then move on to more sophisticated Medical Devices.
- 6) Allowing U.S. companies to simply register their "Class I Medical Devices (non sterile, non measuring)" only with the FDA, and E.U. companies only with their in country Ministry of Health will have the immediate, guaranteed impact of saving companies money; which can be used to actually market or sell their products! For example, a U.S. company that wants to sell the simple "Finger Splint" mentioned above in the E.U. currently has to pay several thousand dollars for the rights to do this, even though the product is already registered in the FDA database (again, a public database that provides the traceability that both the U.S. and E.U. want), and this money would be better spent on promoting the product and generating Export Sales (which increase incomes, add to the U.S. tax base, and create jobs)!

I am happy to provide additional information and insights.

Thank you in advance for working to make "Class I Medical Devices (non sterile, non measuring)" a "test case" for U.S.-E.U. regulatory cohesion for Medical Devices!

Sincerely yours,

Brooke Fishback

Mr. Brooke Fishback, MBA, CGBP
 International Sales Manager
 Health Enterprises, Inc.
 Member, Massachusetts DEC (District Export Council)

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APPENDIX II

HEALTH ENTERPRISES, INC - www.healthenterprises.com
 PRODUCT COSTING - SALES TO BRAZIL

Item #	Description	Country of Origin	HTS Code	Brazilian import Duties/Taxes on shipments from U.S. (U.S. Exports)			Vs.	U.S. import duty on shipments from Brazil (Brazilian Exports)
				Landed Cost	Taxes %	Taxes \$/unit		
400733	Ear Irrigator	U.S.A.	3824.90	\$8.86	61.5%	\$3.41	6.6%	
400775	After Swim	U.S.A.	3005.90	\$3.42	68.8%	\$1.07	0.0%	
700398	Lice Cure	U.S.A.	3305.10	\$6.27	51.5%	\$3.04	0.0%	
400595	Ear Syringe	U.S.A.	3926.90	\$4.94	56.8%	\$2.13	4.2%	
MC12	Lice Comb	U.S.A.	9615.19	\$4.40	56.8%	\$1.90	11.0%	

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House Committee on Small Business

Hearing

June 26, 2013

**Impact on Recent and Pending Free Trade Agreements
on Small Businesses**

Statement by

Gary Hufbauer

Reginald Jones Senior Fellow

Peterson Institute for International Economics

Chairman Graves and members of the Committee, thank you for inviting me to testify. My name is Gary Hufbauer and I am a Senior Fellow at the Peterson Institute for International Economics, a non-profit, non-partisan policy research institute.¹

In thinking about the impact of free trade agreements (FTAs) on US small business firms, it is useful to distinguish between *direct exports* and *indirect exports* of these firms. Trade agreements improve both channels.

Direct Exports by Small Business

Over 300,000 American small business firms, defined as firms with fewer than 500 employees, directly export goods and services to foreign markets. These firms number 98% of all US firms that export; between 2002 and 2010 they contributed about a third of total US merchandise exports, and this share seems to be rising.² Since small business firms account for almost half of US employment,³ their direct export share is somewhat less than their employment share.⁴ However, small businesses that export usually grow faster, increase employees, and pay higher salaries than those that just sell domestically. Canada is the top destination country for small business exporters, followed by China, the United Kingdom, Mexico, and Australia. It is not a coincidence that the United States has free trade agreements with three of these countries, and that the English language is spoken in three of them—features that make doing business abroad much easier.

Indirect Exports by Small Business

Small business firms play an important role as suppliers to multinational corporations that in turn export everything from heavy equipment and aircraft to entertainment and software. A large volume of exported goods and services are intermediate products that are combined with other intermediates in global value chains (GVCs). Again, small business firms supply a large share of goods and services to these GVCs. Unfortunately, official statistics do a poor job of tracking indirect exports of small business firms. To give an indication of how important such sales might be, a recent evaluation by the OECD and WTO concluded that, after properly accounting for specialized business services purchased by manufacturing exporters, services contribute fully 40% of the value of world exports, about twice the direct export figure reported in official statistics.⁵ My guess is that a similar calculation of indirect exports by small business firms would boost their contribution perhaps to 50% of US exports. The US Department of Commerce and the US

¹ Sean Miner, Research Analyst at the Peterson Institute, gave valuable assistance in preparing this testimony.

² SBA, Office of Advocacy, FAQ http://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf

³ <http://www.ustr.gov/about-us/press-office/blog/2013/june/ustr-celebrates-small-business-week>

⁴ See National Small Business Association and the Small Business Exporters Association Survey <http://news.yahoo.com/small-business-exports-picking-survey-040313009.html>. For more than half of small business exporters, exports account for less than 10% of revenue. Exports account for more than half of revenue for only one in seven small business firms.

⁵ OECD - WTO <http://www.oecd.org/industry/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm>

International Trade Commission should do a much better job of tracking the indirect exports of small business firms.

Impact of Free Trade Agreements

FTAs make a significant positive impact on small business exports by lowering the fixed and variable costs of doing business abroad. They do this by eliminating tariffs, cutting red tape at the border, simplifying international payments, and allowing multiple entries on a single business visa.

A recent survey by the International Trade Commission on the effects of the Korea-US FTA on small and medium size enterprises (SMEs) found that respondents viewed the FTA in a favorable light, and expected benefits to grow over time.⁶ The report stated that small manufacturers experienced an improved trading environment in Korea by opening new business opportunities, strengthening business relationships, and fostering more regular sales. US agriculture firms also increased their exports, especially where high tariffs were cut or eliminated. Service sales improved, often attributed to the better environment for intellectual property rights (IPR).⁷

Standards for suppliers often serve as a barrier to entry for smaller American companies looking to export. US auto companies that wanted to sell to Korea's market before the FTA often faced strict safety standards, limiting their business opportunities, particularly for firms that were exporting smaller volumes.⁸ Another obstacle addressed in FTAs is the arbitrary use of environmental standards for protectionist purposes. Provisions in the FTA seek to ensure that environmental standards answer genuine problems.⁹

We should expect similar positive outcomes, on a much larger scale, if the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) are concluded. Here are some examples. "Trade facilitation" will be an important payoff. This is the technical jargon for agreed measures that cut red-tape at customs ports and upgrade hard and soft infrastructure. Another payoff, both in the TPP and TTIP, will be convergence of standards, or mutual recognition of standards, so that small business firms can sell their goods and services abroad without expensive modification. Improving the channels for online marketing will be another benefit. A new study by the World Bank shows how the "eBay effect" lowers the negative impact of distance on international sales by some 65%.¹⁰ The alliance between online marketing firms, such as eBay, and express carriers (FedEx, UPS, DHL) will make it much easier for small business firms to reach foreign markets.

Actions outside FTAs to Help Small Business

⁶ ITC: U.S.-Korea FTA effect on SMEs <http://www.usitc.gov/publications/332/pub4393.pdf>

⁷ ITC: U.S.-Korea FTA effect on SMEs <http://www.usitc.gov/publications/332/pub4393.pdf>

⁸ <http://www.whitehouse.gov/sites/default/files/email-files/>

[South Korea Trade Agreement Overview.pdf](#)

⁹ http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm4_e.htm#TRS

¹⁰ World Bank: How eBay Reduces Trade Costs http://www-wds.worldbank.org/servlet/WDSContentServer?WDSPath=IB/2012/10/25/000158349_20121025161729/Rendered/PDF/wps6253.pdf

Unlike the situation two decades ago, US infrastructure is far from the world's best. The United States is well behind several Asian and European countries—meaning that our roads, ports and airports are second class. These deficiencies adversely impact US exports. Small business exporters are further hindered by the scarcity of finance. A report from the Small Business Administration's Office of Advocacy concluded that small business relies more than big business on bank finance, but that credit conditions have been tight.¹¹ For some small business firms, export controls are an important issue. The vice president of international affairs at the Aerospace Industries Association, Remy Nathan, said "The existing web of regulations spans across multiple agencies and is so complex that some smaller firms are hesitant to attempt exports for fear they might break the law."¹²

These subjects call for action in the United States, under Congressional leadership. Shortcomings that curtail America's export potential will not be cured by even the most ambitious FTA; they require reform here at home.

Thank you, Chairman Graves and members of the committee. I am happy to answer questions.

¹¹SBA Credit Availability Effects on Small Business [http://www.sba.gov/sites/default/files/files/rs404tot\(3\).pdf](http://www.sba.gov/sites/default/files/files/rs404tot(3).pdf)

¹²<http://thehill.com/blogs/regwatch/business/296035-obama-forges-ahead-with-overhaul-of-export-controls>

**Testimony of Mariana Huberman
Owner, The UPS Store #5259**

Before the House Committee on Small Business

**Ready to Export: Small Business Policy Recommendations
for USTR**

June 26, 2013

Thank you Chairman Graves, Ranking Member Velazquez, and members of the Committee for the opportunity to appear before the House Committee on Small Business to discuss small business recommendations for international trade negotiations. My name is Mariana Huberman and I have been an owner of The UPS Store #5259 in Washington, D.C. since 2005.

The UPS Store network is the world's largest franchisor of retail shipping, postal, printing and business service centers. Today, there are nearly 4,700 independently owned The UPS Store locations in the U.S., Puerto Rico and Canada. And I am proud to say my UPS Store is ranked in top 30 of these Stores.

When I decided to open my Store, I wanted to provide excellent customer service and provide critical business services that were lacking in my neighborhood. My staff knows the names of most of our customers and they know ours. We really consider ourselves to be vital partners in their growth and success.

Every day my staff and I deal with small business owners looking to grow their businesses both domestically and internationally. It is our job to make their jobs easier—whether by navigating complex customs rules when shipping their international packages, providing a business mailbox to ensure they don't miss an important shipment, or printing their marketing materials to grow their business footprint—it is also our goal to become an integral partner to each of them and help them access the global marketplace. However, these customers face a number of challenges when looking to export.

For example, we have a couple of art galleries and a number of self-represented artists who are clients. We ship their artwork all around the country and we also work to ship it all around the globe, but we run into trouble when shipping to Italy because, customs regulations require that the Italian Ministry of Arts perform a mandatory inspection of all the artwork which could delay the delivery for a minimum of 10 days.

Another customer sells non-prescription vitamin supplements and has a difficult time getting those delivered overseas because some countries, like Australia, require import approval from the Department of Health and in Germany, the supplements can only be shipped to a German pharmacy with a German doctor's prescription and copy of the pharmacy order. To ship to the Ukraine, you not only need a doctor's prescription, you also have to list the contents in English and Latin and then their intended purpose in Ukrainian!

We have a customer who is a potter and sells her items online. We tried to shop a set of coffee mugs to New Zealand and ended up not doing it because we needed to provide a Heavy Metals Certificate or have the items subjected to testing by the New Zealand Ministry of Health.

We even ran into a problem when a customer wanted to send some clothing to a children's charity in South Africa. Once we got everything ready to go, we found out that used clothing was not acceptable into South Africa and that full duties would be applied to any of the unworn items—for items being sent to an orphanage!

When one of these business owners ships an item overseas, we try to determine before we start processing their packages if they are going to be held up in Customs or not. While we cannot control things like customs duties, we try to inform our customers of the current regulations and restrictions before shipping their items. Once the packages arrive at their destinations, we work with UPS and their overseas Customs contacts to clear their merchandise as quickly as possible. It is good to have a partner like UPS to help facilitate trade for our customers but even they continue to face challenges in the Customs arena, like the ones I mentioned, and any improvements to these systems would benefit our customers. Particularly since UPS operates one of the world's largest, most sophisticated, intermodal transportation service networks and is one of the world's largest customs brokerage firms.

Why American Small Businesses Need New Trade Agreements

The United States is the world's largest and most competitive provider of services, with a trade surplus of more than \$150 billion last year. But around the world, U.S. services firms are not able to compete fairly because of entry barriers, discriminatory treatment, and a general failure to keep international rules aligned with new technologies and the realities of modern business practices. Small businesses are least able to cope with these barriers and outdated rules.

The digital revolution, especially the development of the Internet, has made it possible for small businesses to provide our services to foreign countries. But small businesses do not always have the resources to break down the barriers that they face. We need the U.S. government to negotiate and enforce fair international rules in services and customs procedures.

As a result of the Internet, small businesses can advertise our products and services across the globe at negligible cost. We can receive payments from our customers across the Internet. We can determine the various requirements and standards in foreign markets from the various websites. And, of course, we can ship our products directly to foreign customers by UPS and other express delivery companies.

Small entrepreneurs can realistically aspire to serve foreign markets without having to be physically present in those markets. However, this only is possible if there are international rules that enable these small businesses, and the services firms such as UPS that serve them, to move their information, products, and services freely across borders.

It also is essential for small businesses that governments be required to publicize their various regulations, product and service standards, and customs rules, and to provide due process for dealing with compliance issues.

Fortunately, there are several international negotiations underway in which the U.S. government can eliminate barriers and create new international rules that will greatly expand the opportunities for small companies and professionals from the United States.

Two important trade negotiations for small businesses are taking place in Geneva, Switzerland.

Negotiations on Trade Facilitation in the WTO

The first is the negotiations in the World Trade Organization (WTO) on what is called “trade facilitation”. These are the procedures and rules at the border that determine how efficiently and economically goods can enter a foreign market. This is extremely important for the small business customers of UPS and other express delivery companies.

Small businesses cannot afford to have their products delayed in being delivered to their foreign customers because they won’t get paid until the customer receives its merchandise. While some large companies may have the financial resources to wait for payment, small businesses rarely have that ability.

Also, small businesses do not have the resources or the ability to fight discrimination or other forms of unfair treatment by foreign customs officials. There needs to be predictable, enforceable, and fair treatment for the exports of small U.S. businesses.

Efficient and speedy customs processes, coordinated between the U.S. and its global trading partners, will constitute a huge step towards removing the bottlenecks found in global supply chains. By embracing the opportunities of e-commerce and meeting the growing demands of international trade flows through effective trade facilitation, the global economy stands to gain immensely.

Chokepoints at the border, such as costly customs procedures, inefficient facilitation programs, and burdensome regulations, reduce the critical predictability of the supply chain, and as a result can have the same stifling impact on trade as tariffs.

Negotiations on the Trade in Services Agreement (TISA)

New international rules are needed to reflect all the changes in the world since the last set of international rules for services were established twenty years ago by the World Trade Organizations in the General Agreement on Trade in Services (GATS). The United States recognized this deficiency and teamed last year with other countries to initiate negotiations on the Trade in Services Agreement (TISA). The purpose of these negotiations is to increase access to international markets for services firms and to establish new rules for services. These negotiations now include 50 countries accounting for over 70 percent of world trade in services.

The TISA negotiations could be most helpful to small businesses in the United States by establishing open markets and non-discrimination for the U.S. services companies upon which U.S. small businesses depend. Among the services which facilitate the exports of small businesses are: express delivery, electronic payment services, information and communications technology services, retail services, and insurance services. If these services are not able to operate freely in foreign markets, then small businesses in the United States will not succeed in reaching the 95 percent of consumers who live outside the United States.

Other Negotiations

As the United States negotiates the trade facilitation in the WTO and the TISA, it also is negotiating a comprehensive trade and investment agreement with the European Union, the so-called Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP) with eleven countries around the Pacific Rim.

In both these negotiations, it is important that the U.S. negotiators seek the same high-level of ambition as they are seeking in the two sets of negotiations in Geneva (Trade Facilitation and the Trade in Services Agreement).

Conclusion

Small businesses are the lifeblood of the American economy, and services are the central nervous system on which small businesses depend. They cannot penetrate foreign markets without an array of services to support them. And those services must have free access to foreign markets and non-discriminatory treatment within those markets.

Given the several negotiations on new international rules, it is timely for the Committee to be holding its hearing today on small business recommendations to the incoming U.S. Trade Representative and the many agencies that participate in these negotiations.

Thank you again, Chairman Graves and the Committee, for giving attention to these issues of vital importance to the expansion and prosperity of America's small businesses and their employees.