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

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Testimony of Sonya Kostadinova

Transcon Trading Co., Inc.

On behalf of the Small Business Exporters Association

Senate Committee on Banking, Housing and Urban Affairs
Hearing:

"Export-Import Bank Reauthorization: Saving American Jobs and Supporting American Exporters"

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Chairman Johnson, Ranking Member Shelby and members of the committee, thank you for the opportunity to testify on the reauthorization of the Export-Import Bank of the U.S. (Ex-Im). My name is Sonya Kostadinova and I am the owner, president and CEO of Transcon Trading Co., Inc, located in Columbia, South Carolina. It is my pleasure to testify before you today on why the reauthorization of Ex-Im is critical to small businesses such as mine. I am also here in my capacity as a board member for the Small Business Exporters Association (SBEA), the nation's oldest and largest small- and medium-size exporter (SME) association, which is a council of the National Small Business Association.

U.S. Small Business Administration (SBA) data shows that approximately 70 percent of all U.S. exporters have 20 or fewer employees. Transcon Trading Co., Inc. is one of these companies. Our mission is to help other small- and medium-size companies, namely U.S. manufacturers, to create brand awareness overseas and establish or increase existing exports by providing value added services in all facets of exporting.

Transcon is an export management company (EMC) that has been in business since 1979. We represent internationally approximately 80 U.S. small- and medium-size manufacturers from several different industries—consumer personal care and health care products, pet food and pet care products, equine health care products and other specialty products—and build distribution networks for them overseas. Essentially, we perform the functions of an export department for those U.S. manufacturers that are too small to afford or do not have the expertise to establish their own in-house export department, or opt to tap into our already established distribution network overseas.

The U.S. is a world leader in most of the industries in which we operate and has a great deal to offer to the world marketplace in terms of the highest quality standards and latest technological innovations implemented in their products. Many of the breakthroughs come from very small businesses, including start-ups, some of which can become a favorite, leading brand in international markets before the U.S. marketplace even hears about them—made in the USA still carries a lot of cache around the world. Yet export financing, or lack thereof, continues to hold back many U.S. manufacturers. Just as smaller companies in the U.S. represent our best bet for new exports, so also do smaller companies *overseas* represent our best bet for new *buyers* of American products and services.

Exporting is not easy. Many people have an incorrect assumption of exporting, associating it with the logistics only of an export transaction. The logistics are indeed a very important part of it, but there are a whole host of other business generating activities that have to do with identifying the right importers/distributors in other countries. Among those "other" tasks exporters must handle—and which we take care of for our clients—are: negotiating and signing distribution agreements; building relationships with the clients; marketing and advertising their products in the foreign countries; assisting in foreign country product registrations where necessary; preparing the entire export documentation package to aid customs clearance; and assuming title of the goods and therefore the fiscal responsibility that comes with it.

My company, Transcon takes care of all this, we pay the manufacturers as soon as the goods leave their warehouse, and at the same time extend credit terms to qualified international buyers as part of an attractive export services package. These difficult tasks which we handle enable us to expand our business as well as that of many U.S. manufacturers.

And this is where Ex-Im Bank comes to play an instrumental role for us by insuring our foreign receivables. We have a Multi-Buyer Export Credit Insurance Policy with Ex-Im including Discretionary Buyer Credit Limit (DCL) and Special Buyer Credit Limit (SBCL). Although Transcon has utilized Ex-Im programs since 1993, my personal, close observation and participation in this process dates back to the early 2000s.

Between 2003 and 2008—before the severity of the global recession hit—we had almost doubled our exports in large part due to Ex-Im's credit insurance of our foreign receivables. Over the last 20 years, Ex-Im Bank has been a strong driving force behind our growth in exports. In our experience, offering credit term facility to foreign buyers can significantly increase any company's negotiating power, resulting in 40-60 percent increases in export sales.

One of the reasons why many U.S. manufacturers lose business to foreign competitors is the fact that they are afraid to sell on open account, i.e.: to assume the financial risk of offering credit terms to foreign buyers. Receivables' insurance is not as popular in the U.S. as it is in Europe, for example: per 2008 data, Western Europe utilizes 83 percent of the global credit insurance market (Germany/26 percent, France/18 percent, U.K./18 percent. The rest of the world only uses 17 percent (*of which North America uses only six percent).* There are a number of good geographical and historical reasons for that diminutive number but the fact remains that U.S. private banks don't typically offer credit risk insurance. There are some exceptions but most of us are too small to qualify. Even if we did, it would be cost prohibitive and therefore not worthwhile going through the process.

This leaves small businesses like mine with very limited options outside Ex-Im Bank.

Confident of its important role, we have promoted Ex-Im's services to as many companies as possible throughout the years. As an adjunct professor of exporting at the number-one international business program in the country at the Moore School of Business at the University of South Carolina, I designate a special session in my class on Ex-Im and its role in credit financing of export transactions. I want the young entrepreneurs in my class—many of whom start their export companies during the semester as a class project—to know that they are not alone and if no private banking institution steps up to provide export financing, Ex-Im can. There are many companies in this country that either are not familiar with Ex-Im or only have a limited knowledge of Ex-Im and their services. Therefore, my class is just one resource to increase the outreach and word of Ex-Im to future small businesses. In my opinion there are many U.S. small businesses that could be exporters except for the fact that they do not know where to turn and/or the existence and services of Ex-Im.

In fact, according to a past survey by SBEA and NSBA, 56 percent of small businesses surveyed by said concerns over getting paid and cost are the main barriers to exporting. Forty-three percent of small businesses said they would be interested in exporting if some of their concerns were addressed. Ex-Im clearly has the potential to help many small businesses begin or expand exporting operations which would, without question, bolster the U.S. economy.

In 2011 Transcon registered exports to about 80 countries. In addition to representing other manufacturers' brands overseas, we have our own branded pet grooming line that has enjoyed loyal, international customers for a couple of decades now. Ex-Im Bank has been a strong driving force behind our growth in exports.

Getting export credit financing and insurance is a very difficult, expensive and cumbersome process—and oftentimes not possible at all—for a small business, if done through private sector banking institutions. Ex-Im Bank provided that supporting arm to us and helped us double our exports. It is unthinkable for us to not only continue this export expansion, but also to even continue to exist as an EMC without the support of Ex-Im Bank. Without it, we would lose most of our open account buyers to European competitors who receive massive amounts of support in export financing and foreign receivables insurance from their own export credit agencies.

During the global recession, we witnessed incredible proliferation of protectionism around the world. Signing free trade agreements alone is not enough anymore to protect the U.S. manufacturers' right to fair trade. Many governments enforced impossible regulatory restrictions in the form of country specific registration and importation requirements, which effectively become non-trade barriers to entry. While it would take the U.S. a longer term effort involving negotiations at the highest level with many governments to bring some much needed balance to that process, Ex-Im Bank's reauthorization can be an act taken domestically that would have equal, if not bigger, importance and impact on our ability to export.

We could swallow the losses in one country, due to overly burdensome regulatory requirements, and refocus and redirect our efforts to those other countries that still allow fairer and equitable trade practices, but without the export credit financing and foreign receivables insurance, it is unlikely that we will succeed to outperform our foreign competitors. We would lose the battle in the very initial stage of negotiations as one of the first questions asked by interested foreign buyers is "Do you offer credit terms?"

In addition, we found out the hard way that many U.S. private banks would not even extend operating credit to us as they do not accept foreign receivables as collateral, only domestic receivables and inventory/equipment. Having our receivables 95 percent covered by the Ex-Im Bank Insurance Policy has allowed us to leverage them along with the inventory and have our credit line approved. For many small businesses, this positive side effect is equivalent to a life line support that allows export expansion. As we all know, growth is usually painfully associated with cash flow struggle/problems.

U.S. Department of Commerce 2008 data shows that one out of 20 or six million jobs in America depend on manufactured exports. Export related jobs pay an estimated 13 to 18 percent more than the U.S. national average. Unfortunately, the U.S. is underperforming: less than one percent of America's 30 million companies export. Of those that export, 58 percent export to only one country. In my home state of South Carolina, export-supported jobs linked to manufacturing account for an estimated 9.2 percent (the fifth highest share among the 50 states) of South Carolina's total private-sector employment. Well over one-fourth (28.9 percent) of all manufacturing workers in South Carolina depend on exports for their jobs, the second highest among the 50 states.

Small businesses are a critical component of the U.S. economy, with 27.5 million businesses employing half of the private U.S. workforce. Many of these small businesses rely on exporting to increase their sales, grow their business and create new jobs. With 95 percent of the purchasing market outside of the U.S., small businesses understand the importance of opening new markets and competing in the global marketplace. In fact, 97 percent of identified U.S. exporters are small businesses, yet that represents only a fraction of those who could compete abroad.

Small businesses rely on exports to increase their sales, strengthen their long-term viability and create new jobs. U.S. exports in 2010 supported nearly 10 million jobs, including an estimated four million for small businesses. Total U.S. exports in goods and services reached $1.8 trillion in 2010, nearly 12 percent of U.S. gross domestic product. A U.S. International Trade Commission's report showed exporting small businesses averaged 37 percent revenue growth from 2005 to 2009; compared to a decline of 7 percent for non-exporting small businesses. One billion dollars in U.S. exports creates 6,000 new jobs.

Over the next four years, the demand for U.S. products and services will likely grow dramatically. Ex-Im Bank's role as "lender of last resort" will, in the coming years, be even more critical to leveling the playing field for small U.S. exporters. In fact, for smaller companies, Ex-Im is not the bank of last resort. It is the bank of *only* resort.

Our expansion results in direct job creation not only for Transcon and South Carolina, but also for many other states in the country as the manufacturers we represent are located all over the U.S. We have had about $50,000,000 worth of foreign receivables insured by Ex-Im for which we paid a premium of $364,000; this shows well below one percent cost associated with the insurance premium. Private sector premiums would be a lot higher than that and therefore unaffordable by small businesses.

Since 2006 we have had only one claim (filed in 2008) and it was for less than $2,500. We have had zero claims since then.

Ex-Im's export credit insurance has given us peace of mind and allowed mitigation against both commercial and political risks and made our foreign receivables eligible for financing. During the economic crisis, Ex-Im did not cancel or reduce coverage on buyers when most (with very few exceptions) of the private sector insurance did, which caused a major problem. When the private insurance companies canceled coverage that caused the banks' lending against those formerly-insured foreign accounts receivables to stop lending.

As our prominence overseas has grown, we now have buyers who could use Ex-Im Bank's project financing and credit guarantee facility program. Positioned to move to bigger projects, Transcon was stepping up the intention of using Ex-Im Bank's lending capabilities more actively. Now we have been forced to put all of these projects on hold due to the ongoing instability created by Congress' failure to enact a long-term reauthorization.

We need Congress' understanding and swift action NOW to reauthorize the Ex-Im Bank for four years with a $140 billion lending cap. With the current extension set to expire at the end of May 2012, Congress must act soon; otherwise exporters could see their lender of last resort falter as it waits for a new reauthorization. This uncertainty could have a devastating effect on my and many other small businesses' ability to follow through on sales even though there are buyers who want our products.

Short term extensions, as we have seen, will have a paralyzing effect on many of Transcon's ongoing projects. It would hamper our ability to plan, and would provide a wide-open door to our international competitors. We cannot afford to invest time and resources to build relationships overseas and negotiate with foreign buyers, only to find out in the end that one of our strongest negotiating points—Ex-Im's services—are obsolete. Not only would we most certainly lose the opportunity to do business with these foreign buyers, but we would have wasted all of our initial investment in the deal.

Reauthorizing Ex-Im sends a message to the world that the U.S. remains fully engaged as an exporting nation. That is a vital message as Ex-Im Bank remains a catalyst for the expansion of small-business exports while continuing to support businesses confronting aggressive foreign competition. By contrast, failing to act now on the reauthorization, and handing off the issue to the next Congress, would send an unfortunate signal that exporting is much less of a priority for our country.

In the past, such hesitation on the part of Congress has led to situations where companies from competitor nations have raised doubts with the foreign buyers of U.S. products about whether trade financing from the U.S. would continue to be available. And that has led to sales cancellations.

For us smaller companies in international trade, moving forward with a four year reauthorization with an increase in its lending cap is crucial. Congress has wisely taken this opportunity to make a number of long-sought improvements in the Bank's handling of its small-business customers—setting a record in FY 2011 by supporting $6 billion in financing and insurance for U.S. small businesses—an increase of nearly 90 percent since FY 2008. Ex-Im has a goal of providing $9 billion in annual small-business export financing and adding 5,000 new small businesses to its portfolio by 2015. This hefty goal will attract more small businesses to exporting, reduce trade deficits and enlarge the Main Street constituency for international trade. These very desirable benefits ought not to wait many months for a new Congress to act, particularly when the House and Senate were able to reach a compromise earlier last year.

Thank you once again for allowing me to share our experiences and our fears with you. We put our faith in you and I urge you to see Ex-Im Bank for what it is, an agency that produces results and doesn't cost taxpayers a dime—not, as some would have you believe, a burden on U.S. taxpayers. In order to continue to grow U.S. exports, the U.S. economy, and U.S. jobs, I urge you to reauthorize Ex-Im Bank as soon as possible.