



**Atlantic Council**

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GLOBAL BUSINESS  
& ECONOMICS PROGRAM

# The Transatlantic Trade and Investment Partnership



## Big Opportunities for Small Business



Garrett Workman

# The Transatlantic Trade and Investment Partnership



## Big Opportunities for Small Business

**“Among the many beneficiaries of TTIP, perhaps small businesses stand to gain the most. Small businesses are hugely important sources of innovation, employment, and growth, but they lack the resources of large firms to navigate what can feel like a maze of regulations and obstacles to trade.”**

—US Trade Representative Ambassador Mike Froman at the Dialogue on TTIP in Rome, October 14, 2014

**“Small and medium-sized enterprises are likely to be some of the biggest beneficiaries of this deal all across the board. Smaller firms will benefit proportionately more than their larger counterparts. Why? Because they find it much harder to get over barriers to trade since they have fewer resources to find ways around them.”**

—Former European Commissioner for Trade Karel De Gucht to the German Bundesrat European Affairs Committee in Berlin, May 22, 2014

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We are very grateful to the dozens of leading American and European small businesses that participated in our survey. Special thanks go to the businesses that were featured as case studies, whose executives volunteered their time to be interviewed and shared their experiences with us. **Jörn Fleck**, associate director of the Atlantic Council's Transatlantic Relations Program, dedicated countless hours of research and energy to this project, and his contributions to the report cannot be overstated. Thanks as well to our partners at the **US Chamber of Commerce**; the **European-American Chamber of Commerce**; the **US National Small Business Association**; the **Small Business Exporters Association**; **AmCham France**; **AmCham Sweden**; the **German Chambers of Commerce and Industry**; and the **European Association of Craft, Small, and Medium-Sized Enterprises** for connecting us to such innovative and inspiring companies. Finally, we would like to extend our gratitude to Atlantic Council interns **Marie Kasperek**, **Jennifer Rice**, **Anjali Gidwani**, **Cale Rogoyski**, and **Katelyn Lamson** for their terrific and essential research assistance.



# EXECUTIVE SUMMARY

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With Transatlantic Trade and Investment Partnership (TTIP) negotiations underway, there is an increasing focus on the prospective economic benefits and potential policy changes resulting from an ambitious agreement. While modernizing trade rules will benefit businesses of all sizes on both sides of the Atlantic, TTIP will be especially critical for small and medium-sized enterprises (SMEs) that often struggle with the numerous administrative, legal, and regulatory barriers to exporting that slow down trade and hinder innovation. Given their limited financial and human resources, small businesses stand to gain exponentially from a transatlantic agreement that streamlines regulatory and customs processes.

SMEs with fewer than five hundred employees form the backbone of the American and European economies.

More than 99 percent of all businesses in both the United States and European Union are classified as SMEs. These small companies account for the vast majority of employment and have contributed almost two-thirds of all net new private sector job creation in the United States over the past twenty years, adding more than 14.3 million new jobs to the US economy. In Europe, SMEs performed even better, creating 85 percent of all new European jobs between 2002 and 2010. SMEs are critical engines for innovation and economic growth for both the European Union and the United States.

Given the importance of small businesses to both the European and American economies, it is vital that TTIP negotiators not only get the details right when crafting an SME chapter, but also ensure that they address the specific needs of small businesses throughout the entire agreement. The deal must facilitate trade and investment for small companies so that they are able to take advantage of a more integrated transatlantic marketplace—creating jobs and sustainable economic growth while providing quality goods and services at lower prices for all consumers. This is especially urgent at a time when both economies are mired in a sluggish and uninspiring recovery. TTIP could provide exactly the kind of deficit-

neutral stimulus that the United States and Europe need to return to sustained, robust economic growth.

TTIP could provide exactly the kind of deficit-neutral stimulus that the United States and Europe need to return to sustained, robust economic growth.

To date, relatively few SMEs in both the United States and Europe are fully aware of TTIP negotiations or how an agreement could help their businesses. Those that have heard of the negotiations tend to believe that TTIP is designed principally to help large companies, even as negotiators make a concerted effort to focus on SMEs. A more robust and informed dialogue about the opportunities for SMEs to expand their business across the Atlantic is needed, and small companies must be better-integrated into the policy debate moving forward. This report is intended in part to help kick-start that conversation with and among SMEs.

From July to October 2014, the Atlantic Council conducted a targeted survey and interviews with small business executives from across the European Union and the United States. These businesses represent a range of industries, from consumer goods and manufacturing to pharmaceuticals, automotive technology, and web design. All of the companies surveyed identified the same core challenges to doing business across the Atlantic:

- » lack of clarity on how to begin exporting to new markets;
- » difficulties identifying potential partners and customers;
- » confusing and sometimes divergent regulations; and
- » contradictory registration requirements.

SMEs will certainly benefit from a potential TTIP that reduces traditional barriers to market access and resolves regulatory differences for businesses of all sizes. Still, much more can be gained by ensuring that TTIP expressly addresses and helps to alleviate the many barriers affecting SMEs identified in this study.



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# INTRODUCTION

## The Importance of SMEs to the US and EU Economies

With Transatlantic Trade and Investment Partnership (TTIP) negotiations underway, there is an increasing focus on the prospective economic benefits and potential policy changes resulting from an ambitious agreement. While modernizing trade rules will benefit businesses of all sizes on both sides of the Atlantic, TTIP will be especially critical for small and medium-sized enterprises (SMEs) that often struggle with the numerous administrative, legal, and regulatory barriers to exporting that slow down trade and hinder innovation. Given their limited financial and human resources, small businesses stand to gain exponentially from a transatlantic agreement that streamlines regulatory and customs processes.

SMEs with fewer than five hundred employees form the backbone of the American and European economies.<sup>1</sup> More than 99 percent of all businesses in both the United States and European Union are classified as SMEs.<sup>2</sup> These small companies account for the vast majority of employment and have contributed almost two-thirds of all net new private sector job creation in the United States over the

past twenty years, adding over 14.3 million new jobs to the US economy.<sup>3</sup> In Europe, SMEs actually performed even better, creating 85 percent of all new European jobs between 2002 and 2010.<sup>4</sup> SMEs are critical engines for innovation and economic growth for both the United States and European Union.

Small businesses make up the vast majority of companies on both sides of the Atlantic, yet they operate at a severe disadvantage when it comes to exporting. Despite the close integration of the European Union's single market, only 25 percent of Europe's more than twenty million SMEs export beyond their national borders—and only 13 percent export beyond Europe.<sup>5</sup> However, European firms are more export-oriented than their American counterparts. In the United States, there are approximately 23 million SMEs.<sup>6</sup> In 2011, according to the US International Trade Administration, only about 1.3 percent of these businesses exported at all, and less than half of 1 percent (just 95,000 firms) exported to the European Union.<sup>7</sup> Clearly, there is much room for growth.

The continued economic downturn in the wake of the financial crisis and sluggish demand in SMEs' home markets have been some of the key drivers prompting small businesses to increasingly look abroad to find new markets in order to remain profitable. In recent years, surveys by the US National Small Business Association and the European Association of Craft, Small, and Medium-Sized Enterprises have shown a marked increase in the number of SMEs wishing to export—and in the numbers of businesses that have started to do so.<sup>8</sup>

1 The United States defines SMEs as having 500 or fewer employees, while the EU defines them as having 249 employees or fewer.

2 Office of the United States Trade Representative, "TTIP: The Opportunities for Small and Medium-Sized Enterprises," March 2014, <http://www.ustr.gov/sites/default/files/03142014-TTIP-opportunities-for-SMEs.pdf>.

### Previous Agreements— SMEs Win

Following the implementation of NAFTA, American SME exports to Canada and Mexico skyrocketed. Small businesses represent over 95 percent of all US exporters to the NAFTA market. Early research shows similar jumps in SME exports to Korea after the implementation of the US-Korea Free Trade Agreement which came into force in 2012. In Europe, exports to Korea increased by 24 percent in the first year after implementation of the EU's trade deal with that country, despite many products facing long implementation delays before their tariffs were phased-out.

A TTIP agreement which goes further than previous American and European free trade deals on regulatory issues would be an even greater boon to SMEs in the United States and across Europe.

3 Small Business Administration Office of Advocacy, "Frequently Asked Questions about Small Business," March 2014, [http://www.sba.gov/sites/default/files/FAQ\\_March\\_2014\\_0.pdf](http://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf).

4 European Commission, Enterprise and Industry, "SME Performance Review," [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm#](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm#).

5 Marshall Hsia, "Support for the Internationalisation of European SMEs: Study on Opportunities in International Markets," European Commission, Business Cooperation and Support SMEs and Entrepreneurship Directorate, June 27, 2011, [http://ec.europa.eu/enterprise/policies/sme/market-access/files/conference\\_study\\_background\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/market-access/files/conference_study_background_en.pdf).

6 United States Census Bureau, "Statistics of US Businesses," <http://www.census.gov/econ/subs/>.

7 Department of Commerce, International Trade Administration, "US Exporting Companies 2011," <http://www.trade.gov/mas/ian/smeoutlook/index.asp>; Office of the United States Trade Representative, press release, "US International Trade Commission Releases Report on How TTIP Will Benefit Small Businesses," March 2014, <http://www.ustr.gov/about-us/press-office/press-releases/2014/March/USITC-Releases-Report-How-TTIP-Will-Benefit-Small-Business>.

8 NSBA and SBEA, "2013 Small Business Exporting Survey," <http://www.nsba.biz/wp-content/uploads/2013/06/Exporting-Survey-2013.pdf>.

Critically, European Commission and US International Trade Commission data show that those small businesses that do export are experiencing significant growth as compared to revenue declines for nonexporting firms. For example, between 2005 and 2009, exporting US SMEs grew their revenue by 37 percent while those focused exclusively on the domestic market contracted by 7 percent.<sup>9</sup> Moreover, internationally focused SMEs are also creating more jobs. In the European Union, SMEs that export are growing their payrolls by 7 percent annually as compared to only 1 percent for those that focus exclusively on their domestic market.<sup>10</sup> The time is now for more SMEs to go international and take advantage of these opportunities.

The Internet functions as a powerful platform for SMEs to reach new markets and new customers. Using websites like eBay, Etsy, Amazon, and others, companies and customers from Seattle to Stockholm are able to quickly and easily connect to buy and sell their goods and services internationally online. TTIP must ensure data and information continues to flow freely across the Atlantic to facilitate this new trade, and the regulatory environment must adapt to the thousands of new companies exporting for the first time thanks to the global connectivity of the Internet.

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9 US International Trade Commission, *Small and Medium-Sized Enterprises: Characteristics and Performance* (Washington, DC, November 2010) <http://www.usitc.gov/publications/332/pub4189.pdf>.

10 European Commission, Enterprise and Industry, "Promoting International Activities of SME," [http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/market-access/internationalisation/index_en.htm).

### A Case-Study Approach

One of the best ways to understand the real-world challenges that SMEs face when doing business across the Atlantic is to speak directly with executives facing these barriers on a daily basis. The Atlantic Council interviewed several representatives of American and European SMEs from a range of industries on the most significant problems they faced when beginning to export their goods and services. The experiences of these companies offer insights into the kinds of issues that all SMEs eventually face when taking their business abroad.

Both European and American companies continued to underline the same four core challenges to exporting across the Atlantic:

- » lack of clarity on how to begin exporting to new markets;
- » difficulties identifying potential partners and customers;
- » confusing and sometimes divergent regulations; and
- » contradictory registration requirements.

Importantly, each company profiled also detailed its own unique and innovative solutions to these challenges while offering ideas for how the TTIP negotiators could address these barriers.

### Case Study: Paulson Manufacturing

**Headquarters:** Temecula, CA

**Industry:** Protective Equipment and Industrial Safety Products

**Number of Employees:** 140

Paulson Manufacturing produces safety equipment specializing in eye and face protection used in a variety of sectors, including law enforcement, fire departments, medicine, and construction. In 2004, the family-owned business established its international arm in Frankfurt, Germany, to get easier access to the EU's twenty-eight-country internal market, and signal "our commitment to our [life-saving] products through a brick and mortar presence in Europe," says company president Roy Paulson. He further decided to establish an engineering department at its German subsidiary, to ensure compliance not only with EU and international standards but also so-called ghost standards, or specifications required by individual public sector customers that go beyond regulatory requirements. "It's also these more obscure and sometimes unwritten rules that cause US companies to fail in exporting to the EU," Paulson stressed, adding, "we concluded we simply couldn't hit that target all the way from California." Next, the small business owner became a policy entrepreneur, helping the relevant German statutory associations design a new industry standard for safety products that were unregulated to that point—an innovative yet lengthy and costly process. Paulson is excited about TTIP, hoping that the agreement will bring the US and Europe closer and open the eyes of the business community to the opportunities of European distribution. "I know that for my own company I would expect to see a dramatic increase in my European sales due to this TTIP agreement," Paulson stressed.

## SMEs: Driving the US and EU Economies

Country	Share of exporting SMEs to total exporting enterprises (%)	Value share of SME exports to total exports (%)
Austria	95%	35%
Belgium	69%	34%
Bulgaria	86%	33%
Cyprus	73%	65%
Czech Republic	60%	22%
Denmark	89%	35%
Estonia	61%	64%
Finland	91%	24%
France	94%	33%
Germany	59%	28%
Greece	62%	37%
Hungary	92%	17%
Ireland	79%	57%
Italy	90%	49%
Latvia	97%	53%
Lithuania	98%	39%
Luxembourg	76%	12%
Malta	91%	49%
Netherlands	91%	41%
Poland	93%	27%
Portugal	94%	47%
Romania	87%	36%
Slovakia	87%	16%
Slovenia	88%	38%
Spain	65%	44%
Sweden	94%	26%
United Kingdom	90%	27%
<b>Total EU</b>	<b>81%</b>	<b>34%</b>
<b>United States</b>	<b>97.88%</b>	<b>33%</b>

	% of companies that are SMEs	% of employment in SMEs
European Union	99.8%	67.4%
United States	99.9%	48.5%

\*The European Union defines SMEs as firms with 249 or less employees, while in the United States, a company with 500 or fewer employees is designated as an SME.

\*\*Research reflects EU data prior to Croatia joining in 2013.

**Sources:** US Census Bureau, "Statistics of US Businesses," <http://www.census.gov/econ/subs/>; Lucian Cernat, Ana Norman-López, and Ana Duch T-Figueras, "SMEs Are More Important than You Think! Challenges and Opportunities for EU Exporting SMEs," European Trade Commission, [http://trade.ec.europa.eu/doclib/docs/2014/september/tradoc\\_152792.pdf](http://trade.ec.europa.eu/doclib/docs/2014/september/tradoc_152792.pdf); ECORYS, *EU SMEs in 2012: At the Crossroads* (Rotterdam: European Commission, September, 2012), [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report_en.pdf), p. 15.





# TAKING THE PLUNGE

## SME-specific Challenges to Exporting

Most small businesses initially focus on their domestic markets as they develop and refine their goods and services. It is important for them to gain a sustainable foothold, quickly and reliably relate to their customers, and learn to respond rapidly to changing market demands. Whatever the motivation—establishing international product leadership, an economic slowdown at home, or a successful meeting at an international trade show—SMEs will eventually weigh the benefits of going global.

Once these SMEs are ready to dive into the uncertain waters of international commerce, they face significant legal, administrative, and regulatory barriers that need to be successfully identified and navigated. All the executives interviewed for this study emphasized their determination to play by the rules. But more often than not, finding, let alone understanding, the rulebook proved difficult. Government websites are often woefully out of date, fragmented, and uncoordinated. Language barriers are real and persistent, especially when it comes to legal issues. Finding labeling, shipping, certification requirements, and all of the other relevant rules that apply to even the most basic goods is almost impossible, even for experienced export managers.

Even as they piece together the rulebook, exporters still must assess their new target market and determine their chances for success. Finding effective in-country distribution partners is key to identifying new customers and understanding different regulatory requirements.

In addition, compliance costs are significant even when rules on either side of the Atlantic are broadly equivalent. If project managers are spending valuable time and energy redesigning a product for the American or European market simply to comply with a slightly tweaked regulation, it means they are not focusing their limited resources on innovating.

SMEs are disproportionately affected by these additional paperwork requirements, regulatory divergences, and essentials of business planning as they have fewer resources, limited in-house expertise, and less experience in exporting than large companies. It is often difficult to even determine what the legal differences are, or what additional requirements exist. Many companies simply decide that the costs of doing business internationally outweigh the benefits, especially when additional export compliance costs entirely wipe away razor-thin profit margins.

Once SMEs are ready to dive into the uncertain waters of international commerce, they face legal, administrative, and regulatory barriers that need to be successfully identified and navigated.

### Case Study: Health Enterprises

**Headquarters:** North Attleboro, MA

**Industry:** Healthcare Products and Medical Devices

**Number of Employees:** less than 50

Health Enterprises develops and manufactures innovative consumer healthcare products and distributes these for sale globally to more than fifty countries. When exporting to the European Union, the company cites regulatory differences as the most costly barriers to greater trade. Needing to reregister even the most basic, lowest risk Class I medical products in Europe—items as simple as a finger splint, which are already FDA-registered—is incredibly costly and time-intensive. Not only does this process cost several thousands of dollars in fees, but registration is often required in more than one EU member state, without any further benefit or enhanced safety for the consumer. Mr. Brooke Fishback, Health Enterprise's director of international sales, suggests that these basic Class I medical devices are among the best places for transatlantic regulatory cooperation to start. "If it's legally sold in the US, it should be legally sold in the EU, and vice versa. If companies could register their products in this category with their home country regulator only, it will immediately save companies money and enhance competitive pricing to the benefit of the consumer."

# WHAT IS TTIP?

## And Why Should SMEs Care?

The European Union and the United States are the world's two largest economies, which together represent a combined 45 percent of global GDP.<sup>11</sup> More than \$2.5 billion in goods and services are exchanged between the two markets each day, and over thirteen million American and European jobs are directly tied to transatlantic trade and investment.<sup>12</sup> Yet, the tides of the global economy are changing; the United States and Europe will not maintain this preeminent position forever. In order to bolster the future competitiveness of both economies, the two sides began negotiations for TTIP last year to remove duplicative regulatory barriers and eliminate all remaining tariffs between the two regions.

Large multinational corporations are able to successfully hurdle the barriers that exist today. They often have foreign affiliates, in-house legal and technical expertise, other support services, and many years of experience that help them meet existing divergent administrative and regulatory requirements between the United States and the EU. While they also stand to benefit from greater market access and reduced regulatory divergences under TTIP, large corporations will be able to cope if these trade talks fail.

11 European Commission, Eurostat, "The EU in the World—Economy and Finance," [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/The\\_EU\\_in\\_the\\_world\\_-\\_economy\\_and\\_finance](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/The_EU_in_the_world_-_economy_and_finance).

12 European Commission, Directorate-General for Trade, "About TTIP," <http://ec.europa.eu/trade/policy/in-focus/ttip/about-ttip/>; Office of the United States Trade Representative, "White House Fact Sheet: TTIP," June 2013, <http://www.ustr.gov/about-us/press-office/fact-sheets/2013/june/wh-ttip>.

### Exporting: Where to Begin?

Companies just starting out face:

- » difficulties obtaining information on differing regulatory requirements;
- » a lack of knowledge of different customs procedures and tax systems;
- » inconsistency in the application of export rules and regulations;
- » problems linking up with competent and reliable international distributors, and;
- » an inability to cost-effectively conduct necessary market research.

### Case Study: Revent

**Headquarters:** Upplands Väsby, Sweden

**Industry:** Machinery Manufacturing

**Number of Employees:** 125

From its humble beginnings in Sweden, Revent has grown to become one of the leading rack oven producers in the world. The company opened a US office in 1992, initially to better protect its intellectual property in the United States, which has become the largest among Revent's fifty foreign export markets. Lengthy, burdensome customs processing and the resulting delays persuaded the company to begin manufacturing for the North American market at its New Jersey plant. Although duties on the company's US imports are low at around 3.5 percent, tariff elimination through TTIP would nevertheless make a difference because "that is still an important margin for us in a highly competitive market," according to Revent Incorporated CEO Daniel Lago. He points out that tariff-free trade would also yield efficiency gains for Revent and other manufacturing companies, allowing them to better balance production volumes and inventories across the Atlantic. The largest potential gains from TTIP for Revent, however, lie in greater regulatory coherence and cooperation across the Atlantic. "A small company like ours spends a lot of resources and time to ensure our products comply with different and divergent standards, from safety and electrical to energy efficiency requirements. It is a major cost driver to have to design two different versions of the same product to two different specifications in the EU and the [United States]," Lago says.

SMEs, however, may not have this luxury. Without the same internal resources or capabilities, small companies must either hire outside help or reallocate limited staff time away from core responsibilities, which can make the costs of exporting prohibitive. A TTIP agreement that eliminates duplicative regulatory requirements and harmonizes equivalent standards would have an outsized positive impact on SMEs.

Across all industries, regulatory and administrative challenges are holding trade, investment, and innovation back—with major consequences for economic growth and employment in both the United States and Europe at a time when neither can afford them. Against this backdrop, negotiators from both sides are understandably heavily focused on crafting an agreement that maximizes the positive impacts of the proposed agreement for SMEs.

There are many opportunities for American and European businesses of all sizes to deepen their ties across the Atlantic. The largest American and European companies are already well-integrated in both markets, but small- and

medium-sized businesses—which face major barriers to trade with far fewer resources to deal with them—have much room to deepen their engagement. Recognizing this, the United States and the EU have made facilitating SME exports a core negotiating objective. Indeed, TTIP will be the first international trade agreement for the European Union that will have an SME-specific chapter. The United States is also negotiating an SME chapter in the Trans-Pacific Partnership. This new emphasis on small business exports underlines the commitment of both sides to the issue.

If successful, TTIP could make it significantly easier to do business between the United States and the EU. Removing the remaining transatlantic tariffs would enhance the ability of American and European companies to sell products in each other's markets. Streamlining customs procedures would get products to markets cheaper and more efficiently. Increasing regulatory cooperation and mutual recognition of equivalent safety protections would allow SMEs to focus precious resources on product development and innovation. By working together, the two

### Case Study: NOW International

**Headquarters:** Bloomingdale, IL

**Industry:** Dietary Supplements and Health Foods

**Number of Employees:** approximately 50 in the international division

NOW International is a family-owned producer of dietary supplements and health foods with annual sales of over \$250 million. The company exports to nineteen EU countries, including the Netherlands, Poland, Spain, Italy, Portugal, and the United Kingdom. While expanding into the European market, NOW International found additional product safety testing requirements and regulatory differences in the treatment of supplements—e.g., the United States considers supplements to be food products and regulates them accordingly, while the EU applies more of an over-the-counter medicine approach to regulations. Limits on ingredients and ingredient combinations all combine into a major challenge. Since the European Food Safety Authority considers supplements as medicines, the company is unable to use garlic in products destined for Europe, even though garlic is obviously safe for human consumption as food. Further transatlantic divergences are exacerbated by additional, and often different, national stipulations by individual EU member states: in the case of garlic, EU member states have their own standards, where some allow garlic to be sold as a supplement, while others treat it as a medicinal herb and therefore restrict sales.

For Philip Pittsford, NOW's international sales manager, "the United States and Europe are so close philosophically compared to the rest of the world that when it comes to regulation, bringing both sides closer together through TTIP really makes sense for our company." He points to the example of the 2012 US-EU Organic Equivalency Arrangement, which stipulates that products marked as organic in one market can automatically be marketed as organic in the other. Perhaps a similar model could be replicated in other areas. Finally, Pittsford underlines that the lack of easily understandable information can exacerbate these challenges. Many of the EU directives overseeing supplements and medication are written in vague terms subject to interpretation by local customs officials. Challenges finding clear and effective information about existing regulatory requirements for each of the EU member states, and difficulties obtaining clear guidelines without hiring a consultant, represent disproportionately large problems for small businesses.

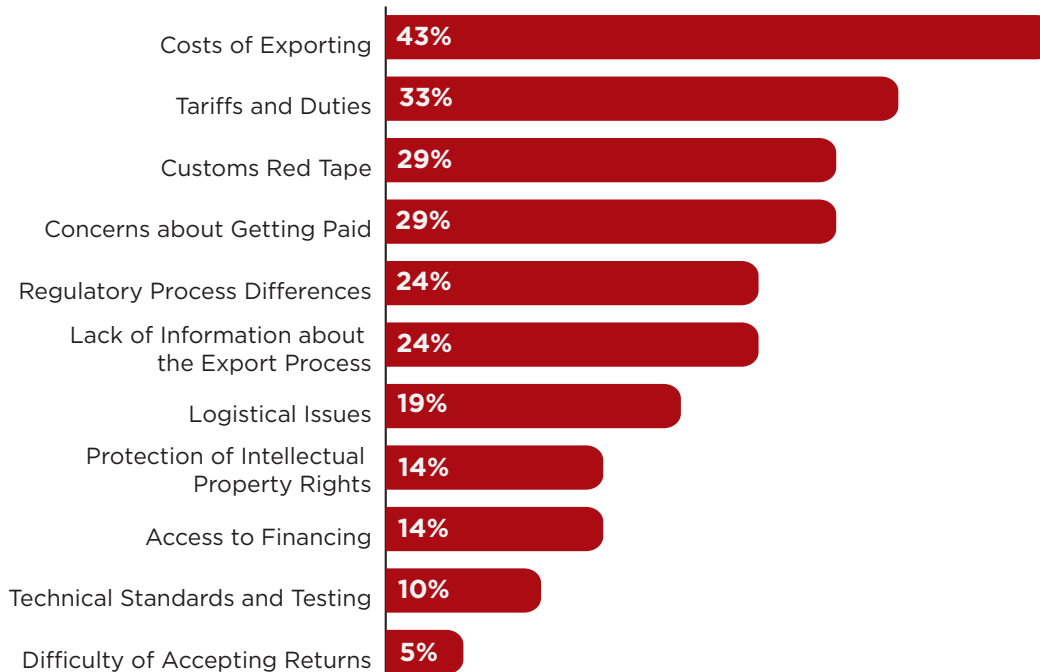
## Which of the following barriers to trade has your company faced when starting to export?



EU SMEs that have not yet exported to the United States:



US SMEs that have not yet exported to the European Union:



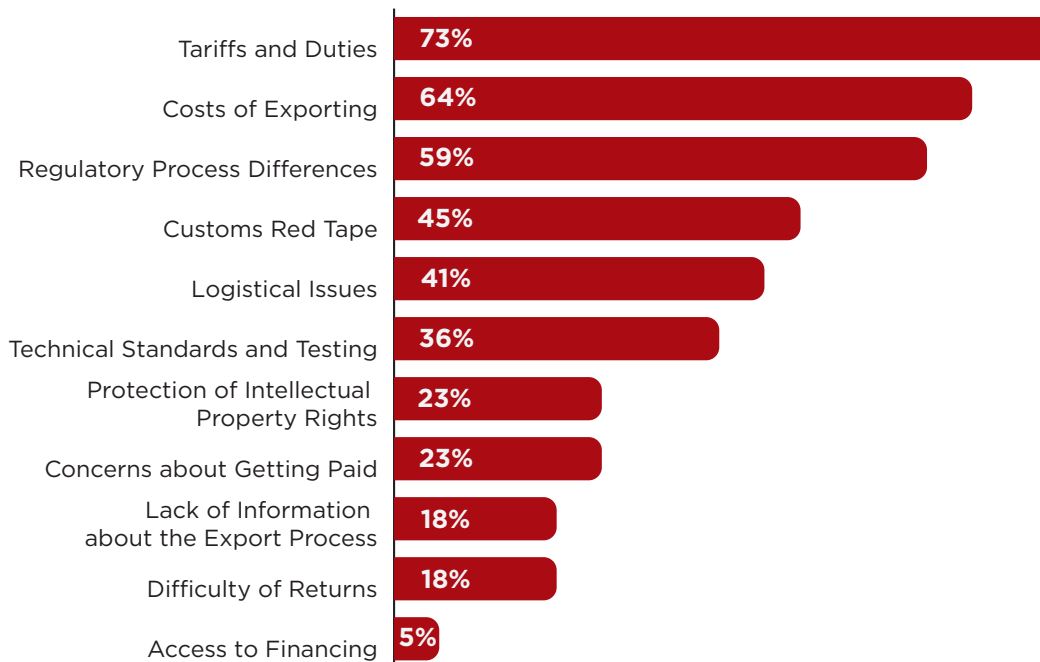
## Which of the following barriers to trade has your company faced when starting to export?



EU SMEs that already export to the United States:



US SMEs that already export to the European Union:



partners can accomplish all of this while simultaneously ensuring a high level of product safety, environmental, and labor protections across their economies.

It is important to note that the benefits from TTIP will flow even to businesses that do not directly export to the United States or the European Union. SMEs are primed to benefit from an economy-wide boost to household income (estimated at \$875 annually per American family and €545 per European family) made possible through an ambitious agreement that lowers transatlantic barriers.<sup>13</sup> Moreover, many SMEs are integral parts of international supply chains, contributing vital know-how and components to other companies that sell finished products globally. These companies, too, stand to gain tremendously from a transatlantic agreement that boosts sales across the Atlantic. Given the overarching economic impacts of TTIP, even nonexporting SMEs stand to gain from an agreement.

As two highly regulated, highly competitive, and highly integrated markets, it makes sense that the European Union and the United States would endeavor to remove some of the unnecessary economic barriers that still exist between them. Such a move would not only bolster the US and European economies, but also send a strong message to international partners that open markets, paired with efficient regulatory regimes backed by the rule of the law, remain the world's most effective economic model.

<sup>13</sup> European Commission, Trade, "In Focus: Trade and Investment Partnership (TTIP), Questions and Answers," <http://ec.europa.eu/trade/policy/in-focus/ttip/questions-and-answers/>; Atlantic Council, Bertelsmann Foundation, and British Embassy in Washington, *TTIP and the Fifty States: Jobs and Growth from Coast to Coast* (Washington, DC, September 2013).

### Case Study: Feuer Powertrain

**Headquarters:** Nordhausen, Germany

**Industry:** Automotive Part Manufacturing

**Number of Employees:** Approximately 500; expanding to hire 300 more in the United States

Feuer Powertrain produces more than one million crankshafts each year for the transportation and automotive sectors on both sides of the Atlantic and around the world. Founded in 2002, the manufacturer employs approximately 500 people at its German site, and has recently started building its first overseas plant in Tunica, Mississippi. When trading between the United States and the EU, Feuer ends up paying double duties—first on imports of materials from the United States, and then again on the reexport of finished products from Europe. For CEO Bernd Gulden, the process of reclaiming some of the tariff payments on the end products through duty draw-back "is such a bureaucratic nightmare and so costly" that the company "has given up trying and simply pays the duty." The TTIP negotiations, he hopes, will not only eliminate transatlantic tariffs, but also address the duplication of certification requirements for production machinery—a costly and time-intensive burden Feuer faced when getting approval for its highly automated production line at its new US factory in Mississippi.

### Case Study: In2Media

**Headquarters:** Copenhagen, Denmark

**Industry:** Web Design and Internet Services

**Number of Employees:** 90

In2Media is a digital agency from Copenhagen, Denmark. Founded in 1994, the company established a presence in New York City in 2012 after securing a one-off project for a US customer and quickly realizing that it needed a physical presence to make the most of the US market. Two years later, In2Media employs ten people at its New York office. Kristian Christensen, In2Media's New York agency director, says the company has made an impact by taking advantage of its unique combination of skills and local market knowledge brought by their American staff combined with their expertise in world-renowned Scandinavian design honed in Denmark. But expanding into the United States was difficult given the various visa requirements that In2Media had to comply with. "Not only are the rules so complicated that an entire legal industry has developed around them," which makes the process very expensive, "but the categories for special skills visas seem obsolete and make little sense for creative industries today," Christensen points out.



# POLICY RECOMMENDATIONS

Given the many particular challenges that SMEs face when starting to export, governments play important roles in simplifying the process and ensuring small companies have access to the expertise and assistance they need. TTIP is an excellent opportunity for the United States and European Union to coordinate their approaches and facilitate cross-border trade and investment by SMEs. By removing tariffs, making the regulatory process easier to understand, and ensuring companies have access to the information they need to start exporting, TTIP can make a real difference in jumpstarting the transatlantic economy. Moreover, while some challenges cannot specifically be addressed in a trade agreement, policymakers should nevertheless use this strategic moment to take creative and proactive steps to strengthen support networks that help SMEs do business across the Atlantic.

The United States and the European Union have already launched several initiatives focused on ways to increase SME participation in transatlantic trade, including efforts under a Memorandum of Understanding developed by the Transatlantic Economic Council. This memorandum incorporates several good ideas, like information sharing and providing networking opportunities for SMEs.<sup>14</sup> Best practices identified under the ongoing US-EU SME dialogue should be renewed or incorporated into the TTIP agreement itself.

14 US Department of Commerce and European Commission Directorate-General for Enterprise, "Memorandum of Understanding Concerning Cooperation on Small and Medium-Sized Enterprises," 3 December 2012, <http://www.ustr.gov/sites/default/files/12042012%20U.S.-EU%20SME%20MOU.pdf>.

## E-Commerce Takes Off:

Using the Internet, small companies specializing in all sorts of industries from gaming to fashion to art and design are able to quickly and easily connect with customers around the world. Raising duty-free limits between the United States and the EU would level the playing field, allowing SMEs on both sides to compete for new customers, ship their products at more reasonable rates, and continue innovating.

TTIP will have a separate chapter on SMEs with specific recommendations on ways to help with exports. This chapter will be critical to establishing concrete actions that both parties would undertake moving forward to facilitate SME internationalization. The inclusion of an SME-specific chapter is unique and historic—neither the United States nor the EU has ever set out specific provisions in a trade agreement addressed particularly at SMEs before now (though the United States is also negotiating an SME chapter in TPP). This is an important first step toward making sure small companies take full advantage of the opportunities that TTIP will provide. Many other chapters of the agreement will contain provisions that support SME exports, including customs, regulatory coherence, and e-commerce.

To be sure, SMEs will benefit from increased market access and transatlantic regulatory cooperation that will yield significant gains for consumers and businesses of all sizes. Still, additional measures can and should be implemented through the SME chapter to specifically help small companies take advantage of a more integrated transatlantic marketplace.

To ensure that TTIP truly expands opportunities for small businesses, negotiators need to work together in good faith to conclude an agreement that accomplishes the following goals:

### 1. Eliminate transatlantic tariffs.

TTIP should fully eliminate transatlantic tariffs across all industries and product lines as quickly as economically and politically possible. Although average tariffs on goods are relatively low (approximately 4 percent), they spike significantly in several key industries like cosmetics, textiles, and apparel. Moreover, even where tariffs are low, small businesses often operate on extremely thin profit margins and tariff rates can remove any price competitiveness they might have enjoyed otherwise. Improved market access through the elimination of tariffs between the United States and the EU is a necessary first step to the conclusion of an effective and ambitious TTIP agreement.

## 2. Raise duty-free limits.

Duty-free exemptions for packages shipped by small businesses entering the United States or European Union should be raised to \$800 to match the exemption offered to travelers arriving to the United States by air. The European Union should phase in increases in its duty-free allowances for both arriving air travelers and inbound packages from SMEs to match. For many SMEs, especially those that sell or manufacture consumer goods, shipping directly to customers across the Atlantic is often a first cautious step into exporting. These increased exemptions would assist SMEs as they begin doing business across the Atlantic and start to gain a foothold in the market. Consumers would ultimately enjoy additional choices and lower costs.

## 3. Simplify product testing and safety certification processes.

One of the executives interviewed for this report suggested that SMEs could be granted year-long grace periods to comply with export market regulations—assuming they already meet their home market requirements—when starting to send their products across the Atlantic. This would give SMEs the additional time they need to gauge the viability of their products in new markets, and adapt their goods, services, and production procedures to changing requirements. The European Union High Level Group on Reducing Administrative Burdens (Stoiber Commission) recently suggested that SMEs be exempted from some EU regulatory requirements to the extent possible.<sup>15</sup> While such special treatment for SMEs might not be desirable or permissible in all circumstances or for all industries, this idea provides an example of the kinds of innovative thinking that will be required in order for TTIP to make a real impact. Simply holding on to existing concepts and processes will not deliver the groundbreaking twenty-first century agreement that both sides have aspired to create.

TTIP negotiations offer American and European regulators the perfect chance to establish closer working relationships and the opportunity to jointly develop best practices and principles to examine the impact of new regulations.

## 4. Recognize equivalent standards to prevent unnecessary duplication.

The European Union and the United States are two of the best-regulated and safest consumer markets in the world. As a general rule, where standards and product safety outcomes can be deemed equivalent, regulators on either side of the Atlantic should mutually recognize each other's standards as sufficient. This would cut down considerably

on the time and resources needed to test new products, and the United States and the EU could rely on each other's results, saving time and resources for governments and businesses alike. This will not be feasible in all industries, however, as the United States and European Union have developed different policy priorities in certain areas over the course of many decades.

## 5. Make the regulatory process easier to understand and more transparent.

Taking the leap into exporting is already a daunting process, but it can be made much worse when it is nearly impossible to find the latest information about what regulatory differences exist and what additional certifications are required for entry into new markets. To address these information gaps, the United States and European Union should:

- create sector-specific web-based platforms for the most commonly traded goods and services that clearly delineate different regulatory policies and outline requirements for shipping, labeling, testing, certification, and customs clearance;
- give SMEs additional time and training to comply with regulatory changes as the recertification process can be disproportionately expensive and resource-intensive for smaller organizations;
- endeavor to cut down on paperwork and simplify rules for certification of origin; and
- provide companies of all sizes—regardless of their nationality—ample opportunities to comment on the impact the new rules would have on their business. Proposed regulations should be posted online in an easily-accessible format alongside comment forums open to everyone.

### Bridging Information Gaps:

SMEs need easy access to reliable information quickly. The United States and European Union should work together to create and routinely update websites with accurate information outlining the regulatory requirements for the most commonly traded products. Relevant agencies on both sides should also have dedicated staff resources on hand to help small companies navigate the process.

<sup>15</sup> High Level Group on Administrative Burdens, *Cutting Red Tape in Europe: Legacy and Outlook* (Brussels, July 24, 2014) [http://ec.europa.eu/smart-regulation/refit/admin\\_burden/docs/08-10web\\_ce-brocuttingredtape\\_en.pdf](http://ec.europa.eu/smart-regulation/refit/admin_burden/docs/08-10web_ce-brocuttingredtape_en.pdf).



Negotiators are already discussing the creation of an SME committee that would analyze the impact of new rules on small companies on both sides of the Atlantic. This is an excellent start, but the information provided to the committee members, as well as their findings, must be made easily available online so that businesses of all sizes from across the United States and Europe can benefit and provide input.

Beyond the work of the committee, both the United States and European Union must do a better job of communicating newly proposed regulations and assessing their prospective impacts on SMEs. Business associations in particular must be involved in the process, since SMEs simply do not have the time or resources to take part in policy dialogues occurring in Brussels or Washington, even though the impacts of new regulations are mostly felt far from national capitals.

### **6. Demystify the export process by providing easy-to-understand resources that help connect SMEs directly to their consumers.**

Without the right partners across the Atlantic, it is nearly impossible for SMEs to bring products or services to their international consumers. Governments, business associations, and export promotion agencies have a vital role to play in connecting clients and service providers

in new markets. This sort of matchmaking could be facilitated through the establishment of an effective and inclusive database of companies and distributors organized by country and industry so that even the smallest companies can establish effective distribution networks. This service could be expanded and enhanced if coupled with a centralized transatlantic government procurement clearinghouse that advertises all available government contracts over a certain monetary threshold. American and European SMEs should have equal access to bid for these lucrative contracts that are covered under TTIP no matter their nationality. The European Union's recently concluded deal with Canada provides an interesting and enlightening model here. Ideally this would involve procurement at all levels of government, but starting with contracts paid by federal dollars would be a productive and worthwhile first step.

### **7. Expand export promotion programs that work—and make sure SMEs know about them.**

What many small businesses do not understand is that there are many cost-effective programs available when beginning to export. The problem so far has been finding them. With that in mind, the United States, the European Union, and European member states need to make a concerted effort to better publicize their export promotion and matchmaking services. Right now, the

#### **Case Study: NuStep**

**Headquarters:** Ann Arbor, MI

**Industry:** Exercise Equipment and Consumer Goods

**Number of Employees:** 100

NuStep produces cross-training exercise equipment from its headquarters in Ann Arbor, Michigan, and turned to exporting as the 2008-09 recession looked like it could hurt sales in its American home market. Five years later, the company sells its machines to hospitals, rehabilitation centers, gyms, and other customers across ten EU countries from Denmark and the United Kingdom to Germany, France, and Poland. When launching its exports to the EU, NuStep found the testing and certification processes required to comply with EU regulations to be its most significant cost barrier. "Making that investment and diverting your limited resources to such testing as a small business when you have not yet sold a single item to a new market is a difficult decision," stresses Elena Stegemann, NuStep's director of international business. She suggests TTIP should include mutual recognition or some other, more creative solution—such as a twelve-month grace period that allows exports in certain product categories for small businesses that already comply with requirements in their home market. That would afford companies the opportunity to see whether or not there is even a market for their products before investing major resources into regulatory compliance. Through TTIP, Stegemann also hopes the US and EU governments can help companies like NuStep through an improved matchmaking platform to help SMEs find appropriate partners across the Atlantic. "Much of our international business success is driven by finding the right distribution partners, especially because we sell noncommodity products," Stegemann says. Currently, it is very difficult for SMEs to make connections with the right distributors, or even to know where to look when starting, so assistance in this area can improve their chances of finding success.

## Case Study: Asselin

**Headquarters:** Thouars, France

**Industry:** Construction, Restoration, Woodworking

**Number of Employees:** 140

Asselin is a French family business founded in 1957 that specializes in wood, iron, and cabinet work in the restoration of historic monuments and construction projects. Its portfolio includes the renovation of the Vauban barracks at Versailles and the reconstruction of the eighteenth-century French frigate *L'Hermione*, which brought the Marquis de Lafayette and his troops to America during the Revolutionary War. In late 1999, Asselin saw a market in the United States, not only for its restoration services but also for authentic windows and doors for French-style homes. A year later, the company's president, François Asselin, decided to open an office in Atlanta to be closer to potential customers, but a lengthy investor visa process slowed down his expansion plans. Then, Asselin faced long and costly certification processes for ensuring that their windows and doors would comply with US building codes. This process required the company to retest products that had already been certified in France, which was not only costly but took almost five years to complete, significantly reducing Asselin's ability to quickly compete on a level playing field in the American market.

information that SMEs need is difficult to find even if you know what to look for. This needs to change with the establishment of a centralized, regularly updated website that aggregates and explains what programs are available for which companies at what cost. Several of the companies examined in this report—including NuStep, Now Foods, and Lightning Eliminators—have taken advantage of the US Department of Commerce's Gold Key program, which connects businesses with foreign distributors and helps facilitate meetings and participation in trade shows. These programs should be expanded, with funding coming from increased fees charged to larger corporations using the services. In Europe, the Enterprise Europe Network should be expanded and better integrated with its American counterparts. Once TTIP has been concluded, it will be crucial to ensure that the United States and the European Union work together to ensure SMEs have access to

all the information and help they need to take advantage of the newly opened market opportunities.

Crafting a TTIP agreement that accomplishes these seven goals will yield significant gains for SMEs and consumers alike, while also establishing global gold standards in trade facilitation and regulatory cooperation that can be emulated in future agreements. TTIP negotiators' ambitions to boost transatlantic competitiveness and provide positive pressure on emerging markets depend

in large measure on whether the deal delivers results for small companies that have the most difficulties complying with divergent rules and regulations today. Given the importance of SMEs to both the European and American economies, the sluggish recovery on either side of the Atlantic, and increasing global competition, this is an opportunity neither the United States nor the European Union can afford to miss.

### What about CETA?

The recently concluded Comprehensive Economic and Trade Agreement between Canada and the European Union includes provisions ensuring that details and requests for proposals for all government procurement tenders (at all levels of government) are published online so that European and Canadian contractors can compete and win bids in each other's markets.



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**NOW International**—<http://www.nowfoods.com/>



**NuStep**—<http://www.nustep.com>



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**Paulson Manufacturing**—<http://www.paulsonmfg.com/>



## EU-based Companies

**Asselin**—<http://www.asselinusa.com/>



**Feuer Powertrain**—<http://feuer-pt.de/en/>



**In2Media**—<http://www.in2media.com/>



**Revent**—<http://www.revent.com/>



From top left, clockwise: Revent, Asselin, Feuer Powertrain, In2Media, NuStep, NOW International

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