

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

October 5, 2009

The Honorable Shara L. Aranoff
Chairman
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

SECRET NUMBER
2690
Office of the Secretary Int'l Trade Commission

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OFFICE OF THE SECRETARY
U.S. INTERNATIONAL TRADE COMMISSION

Dear Chairman Aranoff,

Small and medium-sized enterprises (SMEs) are vital to the U.S. economy. SMEs represent over 99 percent of employer firms in the United States and account for just over half of all private sector employment. Even more important to a country seeking rapid job gains in a post-recession economy, SMEs have generated almost two-thirds of net new jobs in the last 15 years. Although SMEs constitute 97 percent of all exporting firms, they only account for 30 percent of the total value of U.S. exports. Many analysts believe that the SMEs' share of U.S. exports could be larger if national policy more clearly focused on the special constraints to exporting faced by these firms.

As U.S. trade policies strive to open markets, enforce trade agreements, and support the healthy expansion of trade, it is critical that SMEs benefit as much as possible from exporting goods and services to foreign markets and contribute as much as they can to overall U.S. export growth. To achieve this goal, certain constraints to exports by these firms may need to be removed.

As the Administration considers policy initiatives to strengthen the export presence of U.S. SMEs in the global marketplace, it would benefit significantly from a detailed assessment of the present role of SMEs in U.S. trade. It is notable, in reviewing current information, that there are many gaps in our understanding of SME's and their exports. The Commission's specialized knowledge of U.S. trade and the breadth and depth of the Commission's trade-focused resources can address these gaps. Therefore under the authority of section 332(g) of the Tariff Act of 1930, I request that the Commission investigate the role of U.S. SMEs in trade, using data obtained from the U.S. Bureau of the Census and other databases, a literature review, and primary data collected through questionnaires, interviews, and hearings, to the extent possible. I further request that the Commission deliver its work in three reports, as follows:

Report I

In the first report, the Commission should give an overview of the current state of SMEs' participation in U.S. exports. **The report should describe, to the extent possible, characteristics of SMEs, their exports, and their role in generating employment and economic activity in the U.S. economy.** The report should focus on merchandise and services exports by U.S. SMEs, providing information on the value of SME exports, the

products and sectors involved, large markets for U.S. SMEs' exports, and how SME exports have changed over time with respect to these factors. This report should also identify gaps in currently available data that may inhibit a more comprehensive understanding of SME participation in export trade. The report should be delivered within three months from receipt of this letter.

Report II

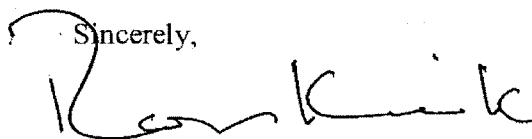
In the second report, we request that the Commission assist in analyzing the performance of U.S. SME firms in exporting compared to SME exporting in other leading economies. As one way of comparing American performance to that of other countries we request that the Commission compare the exporting activity of EU and U.S. SMEs and analyze the distinctions between U.S. and EU firms in terms of sectoral composition, firm characteristics, and exporting behavior. The Commission should also identify barriers to exporting noted by U.S. SMEs, as well as SME strategies to overcome special constraints and reduced trade costs on SME exports. Also, the Commission should identify the benefits to SMEs from increased export opportunities, including free trade agreements and other trading arrangements. The second report should be delivered no later than nine months from the receipt of this letter.

Report III

The third report should, to the extent possible, examine U.S. SMEs engaged in providing services, including the characteristics of firms that produce tradable services, the growth in these services exports, and the differences between SME and large services exporters. Also, the Commission should identify how data gaps might be overcome to further enhance our understanding of SMEs in services sector exports. In addition, for both goods and services exports, the third report should identify trade barriers (nontariff barriers and tariffs) that may disproportionately affect SME export performance, as well as possible linkages between exporting and SME performance. Finally, it should provide insights on the degree to which SMEs operate as multinationals, as affiliate firms, or as contributors of "indirect exports" to international trade through sales to larger exporting firms. The third report should be delivered one year from receipt of the request letter.

I anticipate that the Commission's reports will be made available to the public in its entirety. Therefore, the reports should not contain any confidential business or national security information.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron Kirk", written in a cursive style.

Ronald Kirk