

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2561 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members, Subcommittee on Oversight, Investigations, and Regulations
FROM: Dean Phillips, Chairman
DATE: October 20, 2021
RE: Subcommittee Hybrid Hearing: “Global Supply Chains and Small Business Trade Challenges”

The Committee on Small Business Subcommittee on Oversight, Investigations, and Regulations will meet for a hybrid hearing entitled “Global Supply Chains and Small Business Trade Challenges”. This hearing is scheduled to begin at **10:00 A.M. on Wednesday, October 20, 2021, in person in Room 2360 of the Rayburn House Office Building, and virtually via the Zoom platform.**

The COVID-19 pandemic exposed many weaknesses in the global supply chains that small businesses rely on to provide goods and services. As the economy recovers, small firms and consumers alike face product shortages and transportation delays that can hinder a strong recovery. The hearing will allow Members to examine the issues causing disruptions, challenges small entities face in adjusting to the disruption, and steps Congress can take to strengthen supply chain resiliency.

Panel

- Mr. Kevin Loe, Director of Customer Engagement, Redi-Rock International, Petoskey, MI
- Mr. Christopher O’Brien, Chief Commercial Officer, C.H. Robinson, Eden Prairie, MN
- Ms. Christine Lantinen, President and Owner, Maud Borup Inc., Plymouth, MN
- Mr. John “Chuck” Fowke, President, Homes by John C. Fowke Inc., Valrico, FL

Background

The COVID-19 pandemic exposed many weaknesses in global supply chains that small businesses rely on to provide goods and services. In 2020, economic shutdowns to slow the spread of the virus caused shortages in nearly every industry including medical supplies, clothing, electronic components, and agriculture. Nearly 80 percent of U.S. businesses, both small and large, experienced a disruption in their supply chain due to the pandemic.¹ Small businesses are particularly vulnerable to supply chain disruptions, as they typically have limited inventory and depend on lower costs from overseas suppliers.

¹ Jack Keough, *Pandemic Has Caused Supply Chain Disruptions for 80% of U.S. Businesses*, Industrial Distribution, June 11, 2020.

As a result of increasing globalization, supply chains have become vastly complex, and can vary significantly from product to product. The resurgence of infectious cases in 2021 and continued economic disruptions pose risks to a sustained global recovery. Across the globe supply chain shortages are continuing, due to lingering disruptions to labor markets, ongoing production bottlenecks, and shipping and transportation barriers.² The prolonged nature of the COVID-19 crisis continues to impact trade and the global economy.³

Supply Chain and Trade Vulnerabilities

The pandemic has not necessarily created any new challenges for supply chains.⁴ While it has brought to light previously unseen vulnerabilities, overall, the pandemic has accelerated and magnified problems that already existed in the supply chain.⁵ Tensions and trade wars between U.S. and China have had ongoing impacts on supply chains. So far, China is on a pace to fall short of its 2021 purchasing commitments by more than 30 percent, after falling short by more than 40 percent last year.⁶ Given these ongoing issues, the Biden Administration has signaled that they will not immediately lift tariffs on many Chinese goods and will seek to hold Beijing accountable for trade commitments.⁷ These continued tensions between the world's largest and second largest economies continue to cause disruptions and uncertainty for businesses on both sides of the Pacific.

When it comes to the movement of goods and product efficiency through supply chains, the U.S. lags behind other major economies.⁸ While ocean-spanning supply lines and hyper-efficient “just-in-time” production strategies help keep inventories and costs low for American businesses and customers, they are also vulnerable to disruptions such as catastrophic weather events, and unpredictable global disruptions, like the Suez Canal blockage that impacted global trade for months.⁹

Additionally, American supply chain infrastructure has struggled with investment shortfalls at key ports, issues with railroad and truck transportation, and a chronic failure by key players to collaborate.¹⁰ Unlike many foreign ports, private sector carriers and terminals in the U.S. don't often provide each other access to commercial data for planning and logistics purposes.¹¹ Concerns over data privacy, business secrets, and security have resulted in a fragmented approach. For goods to move seamlessly from overseas factories to American small businesses, the oceangoing vessels, shipping containers, cargo terminals, truckers, chassis providers and railroads all must work together.¹² If a link in the supply chain gets stuck at any point, delays ripple along the entire chain.

² James K. Jackson, et. al., *Global Economic Impacts of COVID-19*, Congressional Research Service, R46270, Oct. 4, 2021.

³ *Id.*

⁴ Sean Harapko, *How COVID-19 Impacted Supply Chains and What Comes Next*, Ernst & Young, Feb. 18, 2021.

⁵ *Id.*

⁶ Ana Swanson and Keith Bradsher, *U.S. Signals No Thaw in Trade Relations with China*, N.Y. Times, Oct. 4, 2021.

⁷ *Id.*

⁸ David J. Lynch, *Inside America's Broken Supply Chain*, Washington Post, Sept. 30, 2021.

⁹ Peter S. Goodman and Keith Bradsher, *The World Is Still Short of Everything. Get Used to It*, N.Y. Times, Oct. 11, 2021.

¹⁰ Lynch, *supra* note 8.

¹¹ Lynch, *supra* note 8.

¹² Lynch, *supra* note 8.

Global Economic Impacts of COVID-19

The pandemic has disrupted lives across all countries and communities, negatively affecting global economic growth. Estimates indicate the virus reduced global economic growth in 2020 to an annualized rate of around -3.2 percent and global trade is estimated to have fallen by 5 percent in 2020.¹³ However, according to a number of analyses, the economic downturn in 2020 was not as harmful as initially estimated, due in large part to the fiscal and monetary policies governments adopted in 2020.¹⁴

In most countries, economic growth fell sharply in the second quarter of 2020, rebounded quickly in the third quarter, and has been mostly positive since. In particular, the World Trade Organization attributed the improved growth performance to fiscal policies that supported personal incomes in advanced economies that, in turn, supported relatively higher levels of consumption and global trade.¹⁵ In 2021, global merchandise trade volumes were up 20 percent over the same period in the previous year. This global trade recovery was broad-based across all major goods categories and reflects the strong government fiscal policy actions taken in the face of the pandemic, and increased consumer demand.¹⁶

While various key economic and financial indicators had rebounded from the depths of the pandemic-related economic recession, not all parts of the global economy have recovered to pre-COVID-19 pandemic levels.

Global Supply Chain Issues

Cheap and reliable sea transport has long been a foundational part of international trade, allowing both large and small businesses to shift production far and wide in search of low-wage labor and cheap materials.¹⁷ However, the pandemic has disrupted trade to an extraordinary degree, driving up the cost of shipping goods and hampering global economic recovery.¹⁸ While large firms may have the cash reserves or ability to increase logistic efficiencies, small firms engaged in international trade have to accept the prevailing market price, and are therefore more adversely impacted by the increased cost of shipping.

Challenges Impacting Trade and Recovery

Across the globe there have been multiple factors continuing to drive supply chain disruptions. Initially, multiple lockdowns due to COVID-19 slowed or temporarily stopped the flow of raw materials and finished goods. While many counties are no longer locked down, trade and supply chains continue to be disrupted globally due to worker shortages, resurgence of COVID-19 infections, temporary factory and port closures, backlogs at ports and warehouses, and unpredictable events like the temporary closure of the Suez Canal and major weather disruptions.¹⁹

¹³ World Economic Outlook Update, International Monetary Fund, July 2021.

¹⁴ Jackson, et. al., *supra* note 2.

¹⁵ WTO Trade Barometer, *Goods Barometer Hits Record High, Confirming Strength of Trade Recovery*, World Trade Organization, Aug. 18, 2021.

¹⁶ *Id.*

¹⁷ Goodman and Bradsher, *supra* note 9.

¹⁸ Peter S. Goodman, et al., *'I've Never Seen Anything Like This': Chaos Strikes Global Shipping*, N.Y. Times, March 6, 2021.

¹⁹ Ruth Simon and Dave Sebastian, *Snarled Supply Chain Trips Up Small Businesses*, Wall Street Journal, April 21, 2021.

Given these ongoing disruptions, the price of moving goods from one part of the world to the other, like machine components or consumer electronics from Asia to the United States, is up as much as tenfold since the beginning of the pandemic.²⁰

One reason for the increased cost and ongoing challenges are the logistical challenges that often results in products being in the wrong places due to ongoing supply chain disruptions.²¹ For example, loaded container ships are frequently stuck for days in floating traffic jams at major ports of call. Main U.S. ports, like those in Savannah, GA or Los Angeles, CA are overwhelmed with record numbers of ships waiting offshore.²² When ships are able to make port, the limited availability of dockworkers and truck drivers causes delays in handling cargo, resulting in overstocked ports and warehouses. Even in ports with a record numbers of trucks coming to haul products away, they can't keep pace with incoming containers, as more ships are waiting to be offloaded.²³

The U.S. is importing historic amounts of goods, thanks in part to increased consumer spending and booming e-commerce, which is swamping the shipping industry with cargo.²⁴ However, this massive demand is exhausting the supplies of many components. Many economists assumed that factories would catch up with demand after a few months, and ships would work through the backlog. However, factories around the world are limiting operations — despite powerful demand for their wares — because they cannot get access to parts and raw materials.²⁵

The Impact on Small Businesses

Due to ongoing supply chain disruptions, many small firms are waiting weeks and sometimes months to receive what they need.²⁶ Additionally, the cost to bring in products or materials from overseas has increased. Before the pandemic, shipping a 40-foot container from China to the warehouse in the Midwest could cost a small firm \$6,000 to \$7,000. Now prices to ship freight have risen to around \$25,000 and can increase to over \$30,000 due to additional warehousing, rail, and trucking challenges in the U.S.²⁷

The increased costs have put small businesses at a disadvantage to large firms like Walmart or Amazon. The biggest companies not only can more easily absorb the higher shipping costs, but they can also negotiate more advantageous freight contracts to ship larger volumes, which allows them to more reliably get their goods across the ocean while smaller companies struggle.²⁸ Additionally, the massive increases in freight costs have helped fuel profits for the seven largest

²⁰ Goodman and Bradsher, *supra* note 9.

²¹ Goodman, et al., *supra* note 18.

²² Gregory Schmidt, *A Record Number of Cargo Ships Off the California Coast Shows a Crack in the Supply Chain*, N.Y. Times, Sept. 23, 2021.

²³ Peter S. Goodman, *'It's Not Sustainable': What America's Port Crisis Looks Like Up Close*, N.Y. Times, Oct 10, 2021.

²⁴ Lynch, *supra* note 8.

²⁵ Goodman and Bradsher, *supra* note 9.

²⁶ *Id.*

²⁷ *Id.*

²⁸ Lynch, *supra* note 8.

publicly traded ocean carriers in the world, who reported more than \$23 billion in profits in the first half of this year, compared with just \$1 billion in the same period last year.²⁹

While small firms are often more nimble than large companies and can adapt quickly to adjusting market conditions by finding different suppliers rapidly, the increased costs of global shipping will be a crushing blow to many small businesses struggling from other economic impacts of the pandemic.

Building Supply Chain Resiliency

Building a more resilient supply chain means ensuring the ability of a preexisting network of demand and supply to deploy surviving capacity, and introduce new capacity, under severe duress. It is the ability of a supply network, or portion of that network, to continue moving goods and services even when important elements of that network are no longer operating.³⁰ This requires intense collaboration between stakeholders throughout the supply chain in both the public and private sector. The goal is to both maintain the flow of goods and services during a disaster and minimizing the economic harm that comes from parts of that supply chain being disrupted.

More resilient supply chains are both secure and diverse. They can help facilitate greater domestic production, ensure that there are built-in redundancies, while at the same time facilitating adequate stockpiles and supplies.³¹ Resilient supply chains also require close cooperation with allies and partners to foster collective economic and national security, as well as strengthen the capacity to respond to international disasters and emergencies.³² While our supply chains have experienced disruptions due to the global pandemic, cyber-attacks, catastrophic weather events, terrorist attacks, and trade wars it is vital to support critical manufacturing capacity and the availability and integrity of global interconnectedness to facilitate the movement of critical goods, products, and services. Resilient American supply chains also rely on domestic manufacturing capacity that can help maintain America's competitive edge in research and development, create well-paying jobs, and support small businesses.³³

Despite the suddenness of the collapse in world trade in early 2020, and ongoing supply chain disruptions, the WTO doesn't see the pandemic having long-term implications for the role that exports and imports play in the global economy.³⁴ The WTO expect supply chain bottlenecks to ease over coming months, partly due to the expected availability of new containers that were ordered by shipping companies earlier this year, new infrastructure at ports, and increased resiliency in global supply chains.³⁵

The Biden Administration has worked with private sector port operators, transportation companies, and labor unions to address supply chain bottlenecks. In June 2021, President Biden launched a Supply Chain Disruptions Task Force to focus on transportation and logistics bottlenecks to the

²⁹ Lynch, *supra* note 8.

³⁰ FEMA, *Supply Chain Resilience Guide*, Apr. 2019.

³¹ President Joseph R. Biden, *Executive Order on America's Supply Chains*, E.O. 14107, Feb. 24, 2021.

³² *Id.*

³³ *Id.*

³⁴ Paul Hannon, *Global Trade Boom to Continue After COVID-19 Reopening Bounce*, Wall Street Journal, Oct. 4, 2021.

³⁵ *Id.*

U.S. economic recovery, and a Port Envoy was named to increase coordination between the many private firms who control the transportation and logistics supply chain.³⁶ While these are important steps to building resiliency, the Biden administration took additional steps in October 2021 to strengthen the resiliency of our supply chains by announcing a series of public and private commitments to move more goods faster. This includes going to 24 hours a day, 7 days a week operations at the Ports of Los Angeles and Long Beach, which are the points of entry for 40 percent of containers to the U.S.³⁷ These ports are on track to reach new highs in container traffic this year, and are helping U.S families and factories get the goods they need, while also helping American businesses reach customers around the world.³⁸

SBA's Trade and Export Programs

According to the SBA Office of Advocacy, only about one percent of the nation's small businesses export their products abroad.³⁹ With 95 percent of consumers living outside of the United States, more emphasis can be placed on helping small businesses sell their products overseas, build resiliency, and increase their economic potential.

To help small businesses, the SBA's State Trade Expansion Program (STEP) provides valuable assistance to help entrepreneurs market and sell their products overseas, which in turn has the potential to stimulate economic growth and create jobs in the United States. The Associate Administrator of the Office of International Trade is responsible for overseeing the program and awards matching funds to states and territories for participation in trade missions, international marketing efforts, workshops, export trade show exhibits, and other promotional activities.⁴⁰ The Office of International Trade can give priority to STEP proposals from states that have a small number of small businesses that export or proposals that would assist rural, women-owned, and socially and economically disadvantaged small businesses.⁴¹

Since its inception, SBA has awarded about \$231 million in grants to state trade offices⁴², with a reported average federal taxpayer return on investment (ROI) of 31:1, meaning that for every \$1 awarded, STEP reported approximately \$31 in sales, with some states generating much higher ROI.⁴³

In addition to the STEP program, SBA also helps to facilitate trade through export-related loans. In FY2020 this amounted to approximately \$958.3 million (approximately 3.4 percent of the SBA's total business loan portfolio). Most of SBA's export-related loans occur through SBA's Export Express, Export Working Capital (EVC), and International Trade loan guarantee

³⁶ The White House, FACT SHEET: Biden Administration Efforts to Address Bottlenecks at Ports of Los Angeles and Long Beach, Moving Goods from Ship to Shelf, Oct. 13, 2021.

³⁷ *Id.*

³⁸ *Id.*

³⁹ SBA, OFFICE OF ADVOCACY, 2018 SMALL BUSINESS PROFILE (2018), <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf>

⁴⁰ Small Business Jobs Act of 2010, Pub. L. No 111-240, 15 U.S.C. §649.

⁴¹ Trade Facilitation and Trade Enforcement Act of 2015, P.L. 114-125, 15 U.S.C. §649.

⁴² Robert Dilger, *Small Business Administration Trade and Export Promotion Programs*, Congressional Research Service, R43155, Sept. 29, 2021.

⁴³ SBA, STATE TRADE EXPANSION PROGRAM ANNUAL REPORT TO CONGRESS FISCAL YEAR 2016, 2018 REPORT.

programs.⁴⁴ As small businesses seek to rebuild and recover from the pandemic, exporting and seeking international markets can help provide small firms with opportunities to grow their business and alternatives to global supply chain disruptions.

Conclusion

The COVID-19 pandemic exposed the interconnectedness and interdependence of the global economy, but it also exposed many of the vulnerabilities of global supply chains and domestic production that businesses and governments can improve. While globalization will continue to help many countries form crucial relationships, the pandemic and supply chain issues give the U.S. the ability to rethink its dependency on certain countries for materials, components, and products that are crucial to public health and national security. There are a number of different tools that individual firms and governments can use to maximize their resiliency in the face of disruption, and the severe disruption caused by the COVID-19 pandemic gives the U.S. the opportunity to review and implement these tools on a pathway to rebuilding and recovery.

⁴⁴ Dilger, *supra* note 42.