

Date of Hearing: January 15, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 690 (Campos and Medina) – As Amended: January 6, 2014

SUBJECT: International Relations

SUMMARY: Repeals and recasts statutory provisions within the Government Code relating to international trade and foreign relations with Mexico. Specifically, this bill:

- 1) Adds the Director of the Governor's Office of Business and Economic Development (GO-Biz) to the membership of the California-Mexico Border Relations Council (Border Relations Council).
- 2) Transfers the statutorily designated chair from the Secretary of the Environmental Protection Agency (EPA) to the Director of GO-Biz.
- 3) Reorganizes the statutory placement of the Office of California-Mexico Affairs (Mexico Affairs Office) and the Border Relations Council from a general title within state government to a more specific title on foreign relations within the Government Code.

EXISTING LAW:

- 1) Establishes a separate Government Code title for issues relating to foreign relations, which includes the assignment of responsibilities to specific government entities. GO-Biz is designated as the primary state agency responsible for international trade and foreign investment activities, excluding agriculture. The Natural Resources (NRA) and Environmental Protection (EPA) Agencies are designated as the primary state agencies responsible for the international exchange of environmental protection and alternative energy technologies.
- 2) Establishes the Mexico Affairs Office for the purpose of furthering and developing favorable economic, educational, and cultural relations with bordering Mexican and U.S. states. The Mexico Affairs Office is the successor entity to the California Office of the Southwest Border Regional Conference and the Commission of the Californias. The members of the Southwest Border Regional Conference are the Governors of the four American border states: California, Arizona, New Mexico, and Texas.
- 3) Establishes the Border Relations Council consisting of the California state agency Secretaries of EPA (chair), NRA, Health and Human Services, Transportation, Food and Agriculture, and the Director of the Governor's Office of Emergency Services.

FISCAL EFFECT: None

COMMENTS:

- 1) Author's Intent: According to the author, "Existing law does not provide a formal structure within state government for comprehensive trade promotion with Mexico. Existing programs on California-Mexico relations do not maximize the potential opportunity to improve the state's economy; to maximize the amount of exports, and create more California jobs."

- 2) Framing the Policy Issue: International trade and foreign investment play an important role within the California economy. Given its significance, it is unfortunate that several of the state's key forums for engaging in foreign relations activities have been shifted and reorganized to the extent that the state's top economic and business development organization, GO-Biz, holds no seat on any California-Mexico related council, committee, commission, or board.

AB 690 addresses this policy oversight by adding GO-Biz to the Border Relations Council and designates the Director of GO-Biz as Chair. The analysis includes additional information on the recent history of the California-Mexico coordinating bodies, international trade's contribution to the California economy, and a list of related legislation. Suggested technical amendments are discussed in Comment 7.

- 3) History of the Mexico Affairs Office and the Border Relations Council: In 1964, California and Baja California formed the Commission of the Californias, and in 1982 these duties were assumed by the Trade and Commerce Agency. During the next decade, the role of the Trade and Commerce Agency expanded and became the Technology, Trade and Commerce Agency (TTCA), while retaining its role as the state's lead agency for international trade and foreign relations activities.

With the termination of the TTCA in 2003, the Mexico Affairs Office was also dissolved leaving no state entity specifically responsible for the coordination of the numerous and diverse programs concerning California and Mexico relations. A 2004 report by the California Research Bureau identified over 100 programs, initiatives, projects, and partnerships within state government, which were administered through 12 departments and agencies, eight boards and commissions, and various campuses of the University of California, the California State University, and the California Community Colleges.

Almost immediately following the closure of TTCA, Legislators began introducing bills to address gaps and other weaknesses in the state's economic development programs. The loss of direct statutory authority to engage in trade and foreign relations activities were among the state's chief challenges. After three active, but unsuccessful years, trade authority was finally restored and assigned to the Business, Transportation and Housing Agency (BTH) [SB 1513 (Romero) Chapter 663, Statutes of 2006], and the Border Relations Council was established and assigned the responsibility to coordinate programs, set related policies, and make recommendations to the Legislature on California and Mexico relations [AB 2031 (Nuñez), Chapter 621, statutes of 2006]. The Secretary of BTH was also placed on the Border Relations Council and the EPA Secretary was designated as the Chair.

After the establishment of GO-Biz in 2011, Mr. Speaker authored legislation to transfer international trade authority from BTH to GO-Biz in order to strengthen its position as the state's lead business economic development entity [AB 2012, Chapter 294, Statutes of 2012].

GO-Biz' position was further strengthened through the Governor's Reorganization Plan 2 (GRP 2), which dissolved BTH and transferred several additional economic development programs from BTH to GO-Biz including the Small Business Loan Guarantee Program, tourism programs, and the California Infrastructure and Economic Development Bank. However, when removing the defunct BTH from the Border Relations Council, a GRP 2 implementing bill replaced BTH's seat with only the Transportation Agency and omitted GO-Biz [AB 1317, Chapter 352, Statutes of 2013]. AB 690 would add GO-Biz to the Border Relations Council.

- 4) Current Activities of the Border Relations Council: The Council is currently operated under auspicious of EPA's California-Baja California Border Environmental Program. The Border Relations Council first convened in February 2008, and held additional meetings in subsequent years.

According to the agency website, the "Council has the potential to identify new Border priorities and fundable projects in the areas of infrastructure, trade, environment, health and security while supporting current and ongoing activities such as the Border Governors Conference, trade missions, border workgroups, and coordinating specific future projects with Mexico." Key activities identified in the 2010 and 2011 Report include:

- The Border Relations Council developed a strategic plan referred to as the New River Improvement Project to study, monitor, remediate and enhance the New River's water quality to protect human health and develop a river parkway suitable for public use and enjoyment [AB 1079 (V.M. Pérez), Chapter 382, Statutes of 2009] .
- The Tijuana River Valley Project was created as an informal collaboration of more than 30 federal, state and local agencies and non-governmental organizations from both the U.S. and Mexico to reduce the amount of sewage and garbage flowing into the Tijuana River Valley and the Pacific Ocean.
- The San Diego Regional Water Quality Control Board, in partnership with the California Natural Resources Agency and counterparts in Mexico, has established the Tijuana River Valley Recovery Team and developed a Recovery Strategy in 2011 to clean up the valley and restore its beneficial uses.

At the January 2014 meeting, the Border Relations Council is scheduled to review its 2012 annual report to the Legislature.

- 5) California's Trade Economy: International trade is an important component of California's \$2.0 trillion economy supporting 4.4 million California jobs. The importance of trade to the California economy is increasing as a percentage of California jobs tied to trade more than doubled from 1992 to 2011, 10.6% v. 22.0%. If California were a country, its \$162 billion in exports would place the state as the 11th largest exporter in the world. Exports from California accounted for over 10.5% (\$162 billion) of total U.S. exports in goods, shipping to over 220 foreign destinations in 2012.

California's significance in the global marketplace results from a variety of factors, including: its strategic southwest and coastal location offering direct access to growing foreign markets in Mexico and Latin America and Asia; its nine diverse regional economies; its large, ethnically diverse population, representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and, its culture of innovation and entrepreneurship, particularly in the area of high technology.

California's largest industry sector by employment is Trade, Transportation, and Utilities, which encompasses everything from major retail outlets, to import-export businesses, to transportation and warehousing. California leads the nation in export-related jobs. The U.S. Department of Commerce estimates that for every one million dollars of increased trade activity, 11 new jobs are supported. Workers in trade-related jobs earn on average 13% to 28% higher wages than the national average.

Manufacturing is California's most export-intensive activity, contributing significantly to the value of California's \$162 billion in exports in 2012. Overall, manufacturing exports represent 9.4% (\$120 billion in goods) of California's GDP, and computers and electronic products constitute 27.6% of the state's total manufacturing exports. More than one-fifth (21.9%) of all manufacturing workers in California directly depend on exports for their jobs.

Besides the production and/or manufacturing of the product being exported, foreign trade results in numerous jobs related to port activity, wholesale trade, warehousing, and transportation. Small businesses played a key role in the state's export market by both exporting themselves and in selling goods and services to other companies that ultimately export. The chart below includes information on the major goods California exported in 2012.

<b>2012 Exports From California to the World</b>		
<b>Product</b>	<b>Value (\$ billions)</b>	<b>Percent</b>
334 Computers & Electronic Prod.	44.5	27.6 %
333 Machinery (except electrical)	14.8	9.2 %
336 Transportation Equipment	16.1	10 %
325 Chemical Manufactures	12.7	7.9 %
339 Misc. Manufacture Commodities	13.8	8.6 %
111 Agricultural Products	11.9	7.4 %
All Others	27.2	29.3 %
Total	\$162 (rounded)	100 %

Source: Tradestates.com

In today's globally linked economy, manufacturing utilizes products from across the U.S., as well as from other nations. In 2012, 61% (\$1.3 trillion) of the products imported into the U.S. were inputs and components used by American producers. In addition, U.S. imports often include components and required services provided by U.S. firms, including California semiconductors and design.

Mexico is California's top trading partner, receiving \$26 billion (16%) in goods in 2012. The state's second and third largest trading partners are Canada and China with \$17.3 billion (11%) and \$14 billion (9%) in exports respectively. Other top-ranking export destinations include Japan, South Korea, Hong Kong, Taiwan, Germany, the Netherlands and the United Kingdom.

- 6) California and Mexico Relations: The United States and Mexican economies have become increasingly integrated, particularly since the 1994 North American Free Trade Agreement. This integration has brought California and Mexico both opportunities and challenges, most notably in the areas of economic development, labor relations, health care, and environmental protection.

Beginning in 1999, Mexico became California's number one trade partner. California's top five exports to Mexico in 2012 were: Computer and Electronic Products (\$8.3 billion); Transportation Equipment (\$2.4 billion); Machinery, except Electrical (\$2 billion); Petroleum and Coal Products (\$1.8 billion); and Chemicals (\$1.5 billion).

According to a 2004 Public Policy Institute study, much of the California-Mexico trade is two-way within the same commodity class, suggesting extensive production sharing. Components made in California are assembled or further processed in Mexico, and shipped back to California. One estimate is that Mexican exports include over 20% U.S. components. Top commodities for this type of trade include: machinery, vehicles, instruments, and electronics and electronic equipment.

- 7) Amendments: The author is proposing to add legislative intent to AB 690. The committee may wish to discuss an amendment with the author to specifically affiliate the Mexico Affairs Office within GO-Biz or some other state entity that can be responsible for its operations. Committee staff also suggest a technical correction in Government Code Section 8702 to clarify that the membership of the Southwest Border Regional Conference now applies to related duties of the Mexico Affairs Office. According to existing law, the Mexico Affairs Office is the official successor entity to the Southwest Border Regional Conference.

The Committee may wish to consider allowing the author to make one or more of these amendments in the Senate given the tight January legislative schedule.

- 8) Related legislation: Below is a list of related legislation from previous legislative sessions:
- a) AB 1370 (Frazier) State Agency Reorganization: This bill implements major portions of the GRP 2 including makes changes to the California-Mexico Border Relations Council. Status: Signed by the Governor, Chapter 352, Statutes of 2013.
  - b) AB 1395 (Nuñez) Master Plan for California and Mexico Affairs: This bill would have required the Secretaries for the Business, Transportation, and Housing and the Environmental Protection to develop and implement a 10-year master plan on California-Mexico relations. Status: Vetoed by the Governor
  - c) AB 1410 (JEDE) International Trade Omnibus Bill: This bill, among other things, would have reorganized the statutory placement of the Office of California-Mexico Affairs and the California-Mexico Border Relations Council from a general title within state government to a more specific title on foreign relations within the Government Code. Status: JEDE-related content removed in the Senate and held in the Senate Rules Committee.
  - d) AB 1719 (JEDE) International Trade Omnibus Bill: This bill, as passed by the committee, would have made technical and non-substantive changes to codes relating to the state's international trade activities. JEDE-related content was later removed. Status: Held in the Assembly Committee on Rules in 2008.
  - e) AB 2012 (John A. Pérez) GO-Biz trade Authority: This bill transfer the authority for undertaking international trade and foreign relations activities from BTH to GO-Biz. The bill also makes a number of related changes. Status: Signed by the Governor, Chapter 294, Statutes of 2012.
  - f) AB 3021 (Nuñez) Creation of the Border Council: This bill establishes the California-Mexico Border Relations Council for the purpose of coordinating activities of state agencies. Status: Signed by the Governor, Chapter 621, Statutes of 2006.
  - g) SB 772 (Ducheny) Border region: waste and used tires: This bill requires the California Integrated Waste Management Board to include in the waste tire recycling program five-year plan information pertaining to border region activities. Status: Signed by the Governor, Chapter 214, Statutes of 2005.
  - h) SB 1513 (Romero) Final Compromise – California International Trade and Investment Act: This bill re-establishes statutory authority for the Business, Transportation, and Housing (BTH) Agency

to conduct international trade and foreign investment activities. Status: Signed by the Governor, Chapter 663, Statutes of 2006.

REGISTERED SUPPORT / OPPOSITION:

Support

Los Angeles Business Federation

Opposition

None received

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