

Date of Hearing: July 7, 2015

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Eduardo Garcia, Chair

SCR 25 (Block) – As Amended: June 30, 2015

**SENATE VOTE:** 34-0

**SUBJECT:** Trade: Israel: memorandum of understanding.

**SUMMARY:** Memorializes the Legislature's support for the March 2014 memorandum of understanding (MOU) between California and Israel. Specifically, this bill:

- 1) Makes declarations, which among other things, state:
  - a) Two-way trade between Israel and California totaled over \$4.2 billion in 2014, representing one of the largest two-way trade relationships between Israel and a U.S. state;
  - b) California and Israel share close ties and are global leaders in the alternative energy, environmental technology, and other technology-based industry sectors; and
  - c) California is home to the largest in-state innovation network in the U.S., which offers technology and commercialization opportunities for Israel.
- 2) Makes other declarations, which among other things, state:
  - a) March 5, 2015 marks the one-year anniversary of the signing of a MOU between California and Israel which called for new strategic partnerships, exchanges, and cooperation on issues of mutual interest;
  - b) The signing of the MOU was the culmination of an effort started by the California Legislature in 2009;
  - c) Collaboration between California and Israel will foster peace and democracy in the Middle East; and
  - d) The MOU solidifies a formal relationship between the two parties by fostering economic cooperation and economic development, facilitating joint industrial research and development, and enhancing business relationships between Israeli universities and universities throughout California.
- 3) States that the MOU envisions the following actions, among others, will be undertaken:
  - a) The convening of bilateral, interagency working groups comprised of international experts to coordinate initiatives;
  - b) The utilization of the California innovation hub (iHub) network to facilitate collaborations between Israeli and Californian entrepreneurs and researchers;
  - c) The formation of ad hoc task forces, trade delegations, and professional exchanges between Israel and California in key sectors;
  - d) The establishment of public-private partnerships between Californian and Israeli entities in the areas of economic development, social entrepreneurship, or academic research; and
  - e) The facilitation of research and other collaborations between universities in California and Israel.

- 4) Recognizes other activities that have already been undertaken as a result of the MOU including:
  - a) Two additional agreements have been signed with the assistance of the Governor's Office of Business and Economic Development (GO-Biz). The first agreement being an agreement between GO-Biz and Israel to add an economic component to the bilateral partnership and a second agreement between the California Institute of Regenerative Medicine and the Israel Ministry of Economy to facilitate matching grants for stem cell research and development;
  - b) A cyber-security strategic plan was developed between Israel and California to explore government-to-government high level security discussions on responding to targeted attacks, gaining access to California and Israeli markets and workforce development projects;
  - c) Israeli water experts met with California elected officials, regional and local water managers, as well as water management experts from the Central Valley; and
  - d) The Rady School of Management at the University of California, San Diego, and the David Nazarian College of Business and Economics at California State University, Northridge, continue to lead California's collaboration with Israeli universities.
- 5) Resolves that the Legislature supports the MOU for facilitating the establishment of strategic partnerships that advance joint innovation, exchanges, and cooperation between California and Israel on issues related to clean technologies, water conservation, health, biotechnology, cybersecurity, education, agricultural technology, research, and other issues of mutual interest.

**FISCAL EFFECT:** None

**COMMENTS:**

- 1) **Author's Purpose:** According to the author's statement, "SCR 25 would establish the Legislature's recognition and support for the memorandum of understanding for strategic partnerships for joint innovation, exchanges, and cooperation between California and Israel."
- 2) **Background on the Legislative Jewish Caucus:** The California Legislative Jewish Caucus (Caucus), supporters of SCR 25, was formed in January of 2014 to discuss and advocate for issues of priority to its members, including immigration reform and civil rights including anti-Semitism on college campuses, and support for the nation of Israel. Members of the Caucus have described it as secular, rather than religious.

As one of the Caucus' first official acts, they participated in the California State Senate's official ceremony honoring civil rights leader Martin Luther King, Jr. Senator Marty Block, chair of the Caucus, spoke about the significant work of Martin Luther King Jr. and the important role Jews played in the civil rights movement.

Most recently, the Caucus Members coauthored HR 25 (Medina), which highlighted the contributions immigrants have made to the U.S. including the economy. The resolution also stated that immigrants have been tireless leaders, not only in securing their own rights and ensuring access to equal opportunity, but also in campaigning for a fairer and more just society for all Americans. Assemblymember Medina is both a member of the Legislative Latino Caucus and the Legislative Jewish Caucus.

- 3) **U.S. Trade Agreements:** Within a globally connected economy, trade agreements create the framework by which a significant number of businesses and workers must compete, collaborate, and create economic value. The U.S. is currently negotiating two major trade promotion agreements, the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership. In their current iterations, these trade agreements will cover 21% of the world's population, with the U.S. at the nexus. These agreements are especially important to local and regional governments which have been proactive in using trade promotion activities as a springboard for their own economic agendas.

The U.S. has trade agreements in force with 20 countries, including Australia, Bahrain, Canada, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Korea, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, and Singapore.

The U.S.-Israel Free Trade Agreement (FTA) was signed in 1985 and was the first agreement of its kind between the U.S. and Israel. The FTA is overseen by the U.S.-Israel Joint Committee. Over the years, the U.S.-Israel Committee has served as a forum for evaluating and enhancing the effectiveness of the FTA. Among other issues, the U.S.-Israel Committee addressed concerns voiced by U.S. exporters about meeting Israeli customs requirements, which led to modification of Israeli import standards, customs classifications, and other technical changes to regulations. The FTA is not as comprehensive as later trade agreements with other countries. This has resulted in ongoing negotiations and subsequent side agreements between the U.S. and Israel to address key sectors including telecommunications, market access for certain specialty agricultural products, and intellectual property.

Israel was the U.S.' 24th largest trading partner in 2014 with \$15 billion in U.S. goods being exported to Israel and \$23 billion in goods imported to the U.S. from Israel. According to the U.S. Department of Commerce, the export of U.S. goods to Israel supported an estimated 40,000 U.S. jobs in 2013. Two-way trade in services between the U.S. and Israel was \$9.8 billion in 2014, with U.S. services exported to Israel valued at \$4.7 billion and services imported to Israel valued at \$5.1 billion.

Top 2014 exports from the U.S. to Israel included: Precious Stones (diamonds) (\$6.8 billion); Electrical Machinery (\$1.8 billion); Machinery (\$1.1 billion); Aircraft (\$1.0 billion); and Optic and Medical Instruments (\$565 million). U.S. exports of agricultural products to Israel totaled \$692 million in 2014. Leading categories include: tree nuts (\$124 million); corn (\$99 million); feeds and fodders (\$61 million); and soybeans (\$61 million).

U.S. foreign direct investment (FDI) in Israel was \$9.5 billion in 2013, a 9.9% increase from 2011. Israel FDI in the U.S. was \$9.5 billion in 2013, up 4.6% from 2012. FDI between both countries is primarily concentrated in the manufacturing sector. Sales of services in Israel by majority U.S.-owned affiliates were \$3.0 billion in 2012, while sales of services in the United States by majority Israel-owned firms were \$2.9 billion. *[Data provided in this section is the most recent available]*

- 4) **Profile on Israel:** Israel declared its independence in 1948. As the map on the following page illustrates, Israel lies at the western edge of Eurasia, bordering the Mediterranean Sea, with Egypt to the southwest, Syria and Jordan to the east, and Lebanon to the north. Israel is a relatively small country comprising 20,770 square miles. For comparison, the country is slightly smaller than the U.S. state of New Jersey.

The geography of Israel is characterized by diverse topographies and climates. While in the south, many areas are lush, but less populated, in the North, near the border with Syria, the land is rugged, mountainous, and is the location of Israel's main source of fresh water. More than half of the country is



comprised of lowland deserts with an annual rainfall between 60–100 mm (or less). In the last few decades, advances in desert agriculture, including aquaculture, have and will continue to change how the Negev Desert is being economically perceived.

Approximately, 7.8 million people live in Israel, ranking it the 99th largest country in the world. Tel-Aviv is the main business city of Israel where nearly 50% of the population lives. Over 90% of the population lives in an urban area.

In 2014, Israel's GDP was \$268.3 billion, making it the 56th largest economy in the world. The U.S. State Department in assessing Israel's investment climate describes Israel as being open to foreign investment and that the government actively encourages and supports the inflow of foreign capital. Israel's GDP is driven by services (71.9%), industry, (25.7%), agriculture (2.4%).

While describing the country as having a "stable domestic environment", the U.S. State Department also notes that the "conflict between Israel and the Palestinians is unresolved, and the risk of politically motivated violence continues." Further, "heightened tensions with Iran due to concerns over Tehran's nuclear program and its support for terrorism also present the potential for regional conflict. Israel's borders with Lebanon and Syria are closed, but instability in Syria and threats from the Iran-backed terrorist group Hezbollah in Lebanon also present some risk of violent incidents or conflict. Israel

signed peace treaties with Egypt (1979) and Jordan (1994)."

A significant part Israel's economy is driven by its high investments in education and scientific research. Among other things, Israel provides a variety of support programs to assist the development of technology including incubators for early stage start-ups. The Office of the Chief Scientist within the Ministry of Economy operates on a yearly budget of \$400 million, according to the U.S. State Department. As a result of these and similar activities, Israel has also become an attractive investment location for the deployment of private venture capital funds.

Key industries in Israel include high-technology products (including aviation, communications, computer-aided design and manufactures, medical electronics, fiber optics), wood and paper products, potash and phosphates, food, beverages, and tobacco, caustic soda, cement, construction, metal products, chemical products, plastics, cut diamonds, textiles, and footwear. Top exports include machinery and equipment, software, cut diamonds, agricultural products, chemicals, textiles and apparel. The U.S. is Israel's largest trade partner, receiving 26.5% of exports, followed by Hong Kong with 8.1% of exports, UK 5.9% of exports, Belgium 4.7% of exports, and China receiving 4.3% of exports in 2013.

In 2011, Israel spent the highest percentage of its GDP on research and development than any other industrialized country at 4.38%; this was higher than second place Finland at 3.78% of GDP. In 2011, there were 1,854 patents with foreign co-investors in which 284 of those were made with the U.S, representing 15.4% of the total patents, a higher figure than the European Union at only 4.7%. These figures not only represents Israel's commitment to intellectual property rights, but also illustrates the

country's effort toward investing in science and technology at a higher rate than historic innovation powerhouses such as Finland, Norway, Denmark, and Australia. In 2013, the patents granted by the U.S. Patent Office in the U.S. were 158,709, from California 43,679, and from Israel 3,617.

Israel and California share two key industry sections: information and communication technology (ICT) and biotechnology. While California remains a global leader, Israel has one of the most concentrated and extensive networks of high-tech outside of the Silicon Valley. The ICT sector in 2012 employed 7% of the labor force, made up 17% of total GDP, and contributed up to 31% of total Israeli exports. Biotechnology offers another sector where joint research and collaboration could be beneficial for both governments. In a 2010 report, Israeli biotech firms consistently identified the lack of national research infrastructures and the lack of suitable partners to carry out specific research operations as considerable factors in obstructing the growth of the industry. With the most recent MOU in place, it is anticipated that both Israeli and California biotech firms will have greater access to new business and investment opportunities.

- 5) **Update on MOU Activities:** In March 2015, GO-Biz submitted a one-year review of MOU activities and outcomes to the government of Israel. The review includes highlights from new agreements, as well as updates on each of the industry focus areas identified in the MOU. Among other highlighted activities and accomplishments:
- Two supplementary agreements have been signed including an addendum agreement to include an economic development component to the bilateral relationship, and an agreement to facilitate matching grants for stem cell R&D between the California Institute of Regenerative Medicine and the Israel Ministry of Economy. GO-Biz facilitated both of these agreements.
  - GO-Biz organized an interagency team to discuss elements of the MOU related to trade and investment. Two meetings were held, one in November 2014 and another in February 2015.
  - GO-Biz established a new iHub, the Worldwide Innovation Network, to facilitate the introduction of foreign companies, foreign investment, and foreign partners to the iHub industry-based networks. While this new iHub will be available to assist businesses from all nations, GO-Biz is specifically assessing potential Israeli companies with the intention of individually introducing them to the industry partners at relevant iHubs. The targeted start date for the Worldwide Innovation Network is the summer of 2015 and a counterpart network is being planned for Israel.
  - The Governor's Office of Emergency Services and Israeli officials are developing a Cyber-Security Strategic Plan for the purpose of exploring potential binational business opportunities. Key areas include, but are not limited to, responding to targeted attacks and helping businesses gain access to markets in California and Israel. GO-Biz is serving as a consultant to the business development related issues. Upcoming projects include individual company introductions, government-to-government exchanges, cyber-security workshops, and a cyber-security seminar focusing on business expansion and new partnerships.
  - The California Energy Commission has met with Israel officials to discuss possible inclusion within existing energy industrial R&D grant programs. An Israeli company delegation attended the Los Angeles Clean Tech Global Showcase and Israeli officials have created the Los Angeles–Eilat Clean Tech Task Force, as part of an existing sister city relationship.

The review also includes a list of California and Israeli government officials who have been assigned or have participated in implementation activities. State government representatives include the Governor's Office, GO-Biz, OES, the California Department of Food and Agriculture, the California Natural Resources Agency, the California Environmental Protection Agency, the California Energy Commission, and the California Arts Council. Israeli representatives include representatives from the Consulates in Los Angeles and San Francisco, as well as the Israel Economic Mission to the West Coast. This list is particularly helpful for businesses who wish to become involved in these activities and the Legislature and other stakeholders who are interested in tracking MOU-related activities.

- 6) **California's Global Economy:** International trade and foreign investment are very important components of California's \$2.2 trillion economy. California receives more FDI than any other state in the U.S., which is significant since the U.S. is the largest receiver of FDI in the world. The California economy benefits from FDI in many ways, some of which include assisting in the creation of jobs, boosting worker wages, increasing exports, bringing in new technology and skills, and generally strengthening the state's manufacturing base.

The top 5 regions with the highest foreign owned and affiliated businesses are: Gateway Cities (796 establishments), South Bay-LAX (741 establishments), San Fernando Valley (725 establishments), San Gabriel Valley (698 establishments), and West Side (415 establishments). The top 5 cities with the highest concentration of foreign owned and affiliated businesses are Los Angeles (1591 establishments), Torrance (310 establishments), Long Beach (212 establishments), Santa Monica (134 establishments), and Pasadena (127 establishments).

The federal International Trade Administration estimates that in 2012 over 602,800 California workers benefit from jobs with foreign-owned firms, which accounts for 4.8% of all private sector jobs in the state. California has had the highest level of employment in foreign-owned firms in the nation since at least 1997. Along with employment, foreign-owned firms own more property, plants, and equipment in California than in any other state.

If California were a country, it would be the 31st largest exporter in the world. Exports from California accounted for over 10.7% of total U.S. exports in goods, shipping to over 220 foreign destinations in 2014. California's land, sea, and air ports of entry serve as key international commercial gateways for products entering the country. California exported \$174.1 billion in goods in 2014 (up from \$168 billion in 2013), ranking only second to Texas with \$289 billion in export goods. Computers and electronic products were California's top exports in 2014, accounting for 24.5% of all state exports, or \$42.7 billion.

<b>2014 Exports From California to the World</b>		
<b>Product</b>	<b>Value</b>	<b>Percent</b>
334 Computers & Electronic Prod.	\$42.7 billion	24.5 %
336 Transportation Equipment	\$18.7 billion	10.7 %
333 Machinery (except electrical)	\$14.9 billion	8.5 %
339 Misc. Manufacture Commodities	\$14.6 billion	8.4 %
325 Chemical Manufactures	\$14.0 billion	8.1%
111 Agricultural Products	\$13.5 billion	7.8 %
<b>All Others</b>	\$55.5 billion	31.9 %
<b>Total</b>	\$161 billion	100 %

Source: Tradestates.com

Manufacturing is California's most export-intensive activity. Overall, manufacturing exports represent 9.4% of California's gross domestic product. More than one-fifth (21.9%) of all manufacturing workers in California directly depend on exports for their jobs.

Small- and medium-sized firms generated more than two-fifths (43%) of California's total exports of merchandise. This represents the seventh highest percentage among states and is well above the 29% national average export share for these firms.

Mexico is California's top trading partner, receiving \$25.4 billion (14.5%) in goods in 2014. The state's second and third largest trading partners are Canada and China with \$18.2 billion (10.4%) and \$16.0 billion (9.2%), respectively. Other top-ranking export destinations include Japan, South Korea, Hong Kong, Taiwan, Germany, the Netherlands, and India.

California Exports 2011 to 2014 (billions of dollars)					
	Partner	2011	2012	2013	2014
	World	159.4	161.7	168.0	174.1
1	Mexico	25.8	26.3	23.9	25.4
2	Canada	17.2	17.4	18.8	18.2
3	China	14.2	13.9	16.2	16.0
4	Japan	13.1	13.0	12.7	12.2
5	South Korea	8.4	8.2	8.3	8.5
6	Hong Kong	7.6	7.8	7.7	8.5
7	Taiwan	6.2	6.3	7.5	7.4
8	Germany	5.3	4.9	5.5	5.4
18	Israel	2.6	2.6	2.3	2.3

Source: International Trade Administration, accessed 6/25/2015

7) **Related Legislation:** Below is a list of bills from the current and prior sessions.

- a) *ACR 100 (Alejo) El Salvador and California Partnership:* This resolution memorializes the Legislature's commitment to work cooperatively with the Governor's Office of Business and Economic Development (GO-Biz) on trade promotion and foreign investment activities that enhance the state's economic relations with El Salvador. Status: Chaptered by Secretary of State - Res. Chapter 172, Statutes of 2014.
- b) *SCR 6 (Monning) Sister State Santa Fe:* This resolution memorializes the intent and commitment of the California Legislature to formalize a sister state relationship with the Province of Santa Fe, Argentina, for the purpose of encouraging and facilitating social, economic, scientific, educational, and cultural exchanges that further promote the prosperity of both regions and to improve the international understanding and goodwill between both regions. Status: Pending on the Assembly Floor.
- c) *SCR 82 (Hueso) Sister State with Jalisco:* This resolution memorializes the commitment of the California Legislature to establish a sister state relationship with the State of Jalisco, Mexico, for the purpose of promoting economic growth and well-being of small, medium, and large corporations and by increasing their potential trade and investment within the State of Jalisco. Status: Chaptered by the Secretary of State, Resolution Chapter 70, Statutes of 2014.

- d) *SCR 121 (Block) California and Israel Memorandum*: This resolution memorializes the Legislature's support for the memorandum of understanding (MOU) calling for strategic partnerships between California and Israel. Status: Chaptered by Secretary of State. Res. Chapter 113, Statutes of 2014.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

Anti-Defamation League  
Bay Area Council  
California Israel Chamber of Commerce  
Jewish Public Affairs Committee of California  
Los Angeles Regional Office of the American Jewish Committee  
Los Angeles, City of  
San Francisco Regional Office of the American Jewish Committee  
Scott Wiener, Supervisor of the City and County of San Francisco  
University of California

**Opposition**

None received

**Analysis Prepared by:** Toni Symonds / J., E.D., & E. / (916) 319-2090