Date of Hearing: April 29, 2009

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
V. Manuel Perez, Chair
AB 1032 (Blumenfield) – As Introduced: February 27, 2009

SUBJECT: International relations with the State of Israel

SUMMARY: Requires the Governor to establish a memorandum of understanding (MOU) to formalize a relationship between California and the State of Israel for the purpose of fostering technology and business development and educational opportunities in solar energy and the environmental technology industries. Specifically, this bill:

1) Provides findings and declarations relative to California and State of Israel and the importance of the solar and environmental technology industries to both economies.

2) Requires the Governor to enter into an MOU between California and the State of Israel that includes the following:

   a) Improves the strategic coordination of technology development and human capital;

   b) Encourages priorities for public and private investments;

   c) Facilitates collaboration among business and academics to increase global market opportunities and employment associated with renewable energy technologies;

   d) Promotes development and production for innovative and globally competitive renewable energy products to contribute to sustained job growth for residents in both California and the State of Israel;

   e) Sets qualitative and quantitative targets to maximize total economic development on a bilateral basis; and

   f) Assesses the feasibility of establishing an industry sector-specific consortium that could significantly increase the economic return from technology transfer and technology commercialization efforts in these industry sectors.

EXISTING LAW authorizes BTH to undertake international trade and investment activities and, as a condition of that new authority, directs the development and implementation of a comprehensive international trade and investment strategy (ITI Strategy.) All international trade and foreign investment activities and funding are required to be consistent with the ITI strategy.

FISCAL EFFECT: Unknown

COMMENTS:

1) Author's Purpose: According to the author, the repeal of the statutory authority for the Technology Trade and Commerce Agency (TTCA) has increased the importance of

strengthening collaborative linkages at the federal, state, regional, and local levels. Improving strategic coordination of technology development and human capital will help to encourage priorities for public private investments.

Further the author states that California and Israeli companies worked together to build the world's largest solar power plant that has generated over 90% of the world's commercial solar-derived electricity over the past 20 years. AB 1032 directs the state trade agency to adopt a MOU with the state of Israel that will formalize, support and expand the collaboration of environmental technology to the mutual benefit of both California and Israel.

The author also states that we live in an era of growing interdependence where partnerships composed of industry and university research teams, regional economic development and human capital development stakeholders can create a “virtuous cycle” of product development in technology based-industries that sustains both regional economic vibrancy and accelerates industry sector-specific innovation to the global marketplace.

The author believes that California has the potential to increase environmental technology development through shared information and collaboration, thereby promoting mutual business, research and technology development opportunities for renewable energy industries that could contribute to spurring innovations to the global marketplace.

2) Going around the ITI Strategy: California's current framework for undertaking trade and investment activities centers on the adoption of an ITI Strategy, which has first been vetted with the Legislature. The ITI Strategy is required to include specific prioritized actions the state will undertake in the short and long-term to support California businesses and workers. As discussed later in the analysis, the establishment of this new framework was in response to significant problems in the trade program which resulted in the ultimate dissolution of the state international trade program.

   AB 1032 proposes to mandate that the Governor enter into an MOU with the State of Israel for the purpose of promoting business and educational opportunities related to clean technologies. The ITI Strategy, however, does not prioritize new business development agreements with foreign countries. Rather than taking a geographic approach, the ITI Strategy takes an industry sector approach based on the state's core and emerging industries. The ITI Strategy emphasizes building deeper relationships within core and emerging industry sectors and then leveraging those relationships in the state's trade and investment activities.

   Further, the current ITI Strategy focuses on strengthening the state's internal trade support operations for the benefit of all businesses. As an example, the ITI Strategy recommends building a web-based directory of international, federal, state and local resources to assist small and medium size businesses in their import and export activities.

   Implementation of AB 1032 would, therefore, represent a departure from the agreed to framework for identifying, prioritizing, and funding trade and foreign investment activities within the ITI Strategy. The author may wish to consider other methods for establishing a collaborative relationship between California and the State of Israel.

3) Development and the Office of International Trade were created in 1977. Almost immediately, questions regarding the effectiveness of California economic development and

international trade programs were raised. As early as 1987, a Little Hoover Commission report called into question the administration, configuration, accountability, and purpose of California's international trade programs. These criticisms were echoed in academic studies, state audit reports, and the Legislative Analyst's Office (LAO) budget analyses, until the ultimate dissolution of all California's international trade and investment offices. A selective review of these reports includes the following:

a) A 1996 State Auditor report, "Trade and Commerce Agency: More Can Be Done to Measure the Return on the State's Investment and to Oversee Its Activities," found that TTCA did not sufficiently assess the success of its programs. With no proper mechanism to determine the state's return on its investment, TTCA programs, including international trade and investment offices, were open to widespread criticism.

b) In November 1999, the California Research Bureau prepared a report, "California Trade Policy," at the request of Lon Hatamiya, Agency Secretary, TTCA. The report stated the typical promotional approach to international trade undertaken by state governments "does not work well in today's changing, high speed, and complex global marketplace."

c) In 2003, the LAO recommended in its 2003-04 budget analysis that the Legislature eliminate all 12 foreign trade offices, noting that the offices had failed to demonstrate a clear impact on exports or foreign investment in California. At the time, California maintained five contract offices and seven state-staffed offices throughout the world.

As part of its budget negotiations, the Legislature took the advice of the LAO and eliminated the foreign trade offices and all foreign trade marketing authority, as well as its administering agency, the TTCA. While poor performance of the international trade program was not the only reason for the demise of TTCA, it was one of the most publicly visible reasons.

4) <u>California's current trade and investment program</u>: Between 2003 and 2006, California had no trade and international marketing authority. After years of debate, the Legislature and the Governor began an unprecedented collaboration on the development of a new international trade and investment program. Agreements on the new program were codified in SB 1513, Chapter 663, Statutes of 2006. Development and implementation of the new trade program required both the Administration and Legislature to share certain powers in order to produce a more effective and, most importantly, more accountable foreign trade program.

As an example, prior to SB 1513, trade related actions may have been undertaken without a clear set of overall program objectives or measures of success. Sometimes relations with a country were established based on the popularity of a country and not necessarily on sound economic policy. International trade initiatives had to compete with each other for funding, leaving some initiatives alive in name only. The new trade and investment program changed the system by requiring all trade related actions be based on an approved set of actions, layed out in the ITI Strategy, based on a comprehensive study on how to help California businesses be more competitive.

Under the terms of the new trade program agreement, the Legislature and the Governor also agreed that the state's future activities must have certain checks and balances that seemed to have been missing during the state's first efforts in trade development. Some, but not all, of the key provisions are listed below:

a) Requiring Business, Transportation and Housing Agency (BTH) to annually report to the Joint Budget Committee funding related to the implementation of the ITI Strategy;

b) Requiring benchmarks and measurable objectives be included in the ITI Strategy to assist the Administration and Legislature in overseeing the program;

c) Requiring the Administration promptly share with the Legislature any information provided to it by the U.S. Trade Representative;

d) Requiring approval by the Legislature before establishing any foreign trade office; and,

e) Prohibiting further state funding to the BTH for trade- and foreign investment-related activities should certain statutorily defined oversight requirements fail to be met.

Collectively, the requirements enacted through SB 1513 for establishing state priorities and implementing the state's trade activities set forth a dual role for the Legislature and the Administration in advancing the state's trade activities.

5) Global competitiveness: California's economy is dependent on its ability to retain its stewardship in the area of innovation and new technologies. In furtherance of the state's position as a global leader in innovation, the ITI Strategy recommends prioritizing core and emerging industry clusters as the best means for maximizing the state's limited resources.

Dominant industry clusters include:

a) Professional business and information services
b) Diversified manufacturing
c) Wholesale trade and transportation
d) High-tech manufacturing

Emerging industry clusters include:

a) Life science and services
b) Value-added supply chain manufacturing and logistics
c) Cleantech and renewable energy
d) Nanotechnology

Based on these industry clusters, the ITI Strategy identifies the following program objectives:

a) Leverage existing services to provide export assistance to companies by the state's primary and emerging clusters;

b) Develop a foreign direct investment program prioritized by the state's primary and emerging clusters;

c) Promote and leverage the California brand;

d) Monitor and engage the federal government in regards to U.S. trade policy; and,

e) Integrate international trade and investment into the state's overall economic development strategy.

Under each of the program objectives are a set of specific actions, including timelines, priority levels, and measurable outcomes. These actions form the basis of the state trade and foreign investment activities. The current ITI Strategy was finalized in August 2008. The next update is expected in 2010.

6) Current and Previous Trade Agreements with Israel: California has long had a solid trade relationship with Israel. Below are short descriptions of three of the most recent trade and businesses development agreements.

a. In March of 1998, Governor Pete Wilson signed a three-year cooperation agreement with the State of Israel encouraging the growth of trade and investment relations "within the framework of a free enterprise economy." The agreement encouraged bilateral investment and support for industrial research and development between companies, particularly in high technology.

b. In October 1999, Governor Gray Davis signed a MOU between the Israel Biotechnology Organization and the California Commission on Bioscience for the purpose of promoting economic growth and to more specifically foster technology, business development and educational opportunities. There is no known sunset on this MOU.

c. In November of 2006, Governor Arnold Schwarzenegger signed a MOU with the Ministry of Tourism for the State of Israel, to foster interaction among entrepreneurs and tourism related business enterprises. Implementation of the MOU will also be used to promote both Israel and California as tourism destinations. There is no known sunset on this MOU.

Given the long and most recent history of cooperative agreements between Israel and California, it may not be necessary to statutorily mandate the Governor in order to achieve the bill's objective.

7) California's trade-based economy: International trade is a very important component of California's $1.8 billion economy. If California were a country, it would be the 11th largest exporter in the world. Exports from California accounted for more than 12% of total U.S. exports in goods, shipping to 222 foreign destinations in 2007.

California's land, sea, and air ports of entry serve as key international commercial gateways for products entering the country. California exported $144.8 billion in goods in 2008, ranking only second to Texas with $192.1 billion in export goods. Computers and electronic products were California's top exports in 2008, accounting for 29% of all state exports, or $41.7 billion.

Manufacturing is California’s most export-intensive activity. Overall, manufacturing exports represent 9.4% of California’s gross domestic product, and computers and electronic products constitute 54.3% 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.

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 $20.5 billion in goods in 2008. The state's second and third largest trading partners are Canada and Japan with $17.7 billion and $13.1 billion, respectively. Other top-ranking export destinations include China, South Korea, Taiwan, the United Kingdom, Hong Kong, Germany, and Singapore.

California's fastest growing significant market is Vietnam. Exports to Vietnam increased 515% from 2001 to 2005. Other major expanding markets for California products include: the United Arab Emirates (up 405%), India (up 111%), Israel (up 78%), and Chile (up 78%), during the same five-year period. In 2008, California exported $1.8 billion in products to Israel, making Israel California's 21st trading partner.

The economic crisis has, however, had significant affects on top California trading partners. According to the International Monetary Fund’s 2008 World Economic Outlook, China’s gross domestic product growth is expected to fall from 11.9% in 2007 to 9.3% in 2009 – which is the first serious slowdown for China in thirty years. In Japan, the industrial output plunged 10% in January, corporate icons such as Sony and Toyota have conquered global markets but are now facing huge losses and laying-off workers, the production of automobiles plunged 41% percent in January.

Mexico has also experienced the value of the Peso drop to 12.31 per dollar, the lowest since the government eliminated currency controls in December 1994. Automakers experienced the biggest downturn, reporting a 13% decline in exports to the U.S. These economic downturns may have major adverse affects on California’s economy as China accounts for $11 billion, Japan $13.1 billion, and Mexico $20.5 billion of California exports. Further, as exports in these countries decline, consumption of U.S. products also decline.

8) Importance of foreign direct investment: The U.S. is the largest recipient of foreign direct investment (FDI) in the world. In 2007, the U.S. received $199 billion in FDI. California receives more FDI than any other state in the U.S. with the largest share of foreign activity in California being in the non-manufacturing industries. FDI impacts the California economy in many ways, including 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. Foreign-controlled companies accounted for 8.9% of total manufacturing employment in California in 2006.

California has the highest level of employment attributed to foreign-owned firms in the nation. Foreign investment in California was responsible for 4.3% (approximately 550,000 workers) of the state's total private-industry employment in 2006. Along with employment, foreign owned firms own more property, plants, and equipment in California than in any other state.

As one of the 10 largest economies in the world, California plans to aggressively market itself to global investors; making the need for clarity regarding the rights and privileges of those foreign investors very important. Leading sources of California FDI include investors from the United Kingdom, Japan, Switzerland, Germany, and France. Europe, in total, is the largest source of FDI in California. Collectively, Asian Pacific countries have the second highest FDI in California with a higher proportion of manufacturing employment and commercial property holdings than Europe.

9) Economy of Israel: Israel is located in the Middle East with a population of approximately 7.2 million in 2008. The country has an extended coastline and also borders the Egypt, Gaza Strip, Jordan, Lebanon, Syria, and the West Bank. It is comprised of 22,770 square miles, making the size of Israel slightly smaller than the state of New Jersey.

Israel's estimated gross domestic product (GDP) in 2008 was $200.7 billion. GDP has grown by about 5% per year since 2003. The economy grew an estimated 4.2% in 2008, slowed by the global financial crisis. According to "The World Fact Book," Israel has a technologically advanced market economy with substantial, though diminishing, government participation. The country depends on imports of crude oil, grains, raw materials, and military equipment. Despite limited natural resources, Israel has intensively developed its agricultural and industrial sectors over the past 20 years.

In 2007, Israel's top export countries were US 35%, Belgium 7.5%, Hong Kong 5.8%. Cut diamonds, high-technology equipment, and agricultural products (fruits and vegetables) are Israel's the leading exports. The countries from which Israel primarily import products includes US 13.9%, Belgium 7.9%, Germany 6.2%, China 6.1%, Switzerland 5.1%, UK 4.7%, Italy 4.1%.

10) Amendments: The author has indicated that he will be offering an amendment to describe the scope of the MOU to be related to clean technologies, which would include solar and other environmental technologies referred to currently in the bill.

11) Challenges to the 2006 foreign trade and investment deal: In 2006, nearly a dozen bills were introduced trying to reinstate California's authority to undertake trade activities, including the opening of foreign trade offices. Based on bi-partisan discussions with all Assembly authors of international trade-related legislation, the provisions of their bills were modified and amended by JEDE into AB 2601. The provisions of AB 2601 were further modified and amended by JEDE into SB 1513, which became the single, bi-partisan, bi-cameral international trade bill for the session. At the foundation of the final SB 1513 agreement is that international trade related actions will be driven collaboratively by the Administration and the Legislature through a comprehensive strategy with clear goals, objectives, and measurements.

In the 2005-06 and 2007-08 Legislative Sessions, bills that were determined to be inconsistent or already included within the SB 1513 agreement were either voted to be held by the JEDE Committee or withdrawn from hearing by their author. Below is a list of the legislation which did not advance from the JEDE.

a) AB 2233 (Chan): This bill would have required the Governor to instruct the Secretary of BTH to establish, on a contract basis, four international trade and investment offices. Status: Held in the Assembly Committee on Jobs, Economic Development, and the Economy, 2005-06 Session.

b) AB 2311 (Tran): This bill would have required, regardless of existing statutory prohibitions, BTH to establish international trade and investment offices. Status: Held under submission in the Assembly Committee on Jobs, Economic Development, and the Economy, 2007-08 Session.

c) AB 2312 (Tran): This bill would have established the position of the State Trade Representative, whose duties include promoting investment and trade between California and a country in which the State Trade Representative is assigned. Status: Held under submission in the Assembly Committee on Jobs, Economic Development, and the Economy, 2007-08 Session.

d) AB 2546 (Liu): This bill would have required BTH to develop an international trade and investment strategy report for the state and authorizes BTH to establish international trade and investment offices. Status: Held in the Assembly Committee on Jobs, Economic Development, and the Economy, 2005-06 Session.

e) AB 2601 (Arambula): This bill would have created a comprehensive domestic and international trade and investment policy and strategy for California. Status: This bill was amended to reflect new subject matter. It was held in the Senate Appropriations Committee, 2005-06 Session.

f) AB 2931 (Aghazarian): This bill would have authorized new authority for BTH related to international trade. Status: Held in the Assembly Committee on Jobs, Economic Development, and the Economy, 2005-06 Session.

g) AB 2978 (Houston): This bill would have delegated responsibility for coordinating and conducting California's international trade and investment programs and activities in the state to BTH. Status: Held in the Assembly Committee on Jobs, Economic Development, and the Economy, 2005-06 Session.

h) SB 1525 (Murray): This bill would have established a foreign trade office in South Africa. Status: Held in the Assembly Committee on Jobs, Economic Development, and the Economy, 2005-06 Session.

i) SB 1529 (Murray): This bill would have established a foreign trade office in the Republic of Korea. Status: Held in the Assembly Committee on Jobs, Economic Development, and the Economy, 2005-06 Session.

j) SB 1762 (Figueroa): This bill would have prohibited the Governor from binding California to provisions of international trade agreements without consent from the Legislature. Status: Held in the Assembly Committee on Jobs, Economic Development, and the Economy, 2005-06 Session.

REGISTERED SUPPORT / OPPOSITION:

Support

Anti-Defamation League
The Coalition of the Environmental and Jewish Life of Southern California

Opposition

None recieved

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