

Date of Hearing: July 6, 2011

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE  
ECONOMY

V. Manuel Pérez, Chair

SB 460 (Price) – As Amended: May 31, 2011

SENATE VOTE: 39-0

SUBJECT: International Trade Marketing and promotion

SUMMARY: Requires the Secretary of the Business, Transportation and Housing Agency (BTH) to convene a statewide business partnership for international trade marketing and promotion. Specifically, this bill:

- 1) Expresses legislative intent that international trade-related businesses represent 25% of the state's economy and that this economic advantage relies on the quality and capacity of the state's air, land and sea ports of entry. More than 40% of the nation's containerized cargo and 30% of all U.S. exports flow through California ports. More than 500,000 people (two million indirectly) are employed in trade related work and an estimated \$7 billion in state and local taxes are generated through trade.
- 2) Expands BTH's trade-related authority to include coordinating international trade marketing and promotion strategies.
- 3) Requires the Secretary of BTH to convene a statewide business partnership for international trade marketing and promotion no later than March 1, 2012, including, but not limited to, representatives of public airports, land ports of entry, seaports, ocean carriers, marine terminal operators, air carriers, warehouse operators, trucking companies, foreign trade zones and shippers (agricultural exporters, post-consumer secondary material handlers and retailers).

EXISTING LAW:

- 1) Specifies that BTH is the primary state agency authorized to attract foreign investments, cooperate in international public infrastructure projects, and support California businesses in accessing markets, and requires the Secretary to develop an international trade and investment policy.
- 2) Authorizes BTH to undertake international trade and investment activities and, as a condition of that 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: According to the Senate Committee on Appropriations' analysis, establishment of the business partnership would result in minor absorbable costs to BTH.

COMMENTS:

- 1) Purpose: According to the author, "This bill is necessary to protect and promote California's status as a major gateway for products entering and leaving the U.S. The statutory authority for the Technology, Trade, and Commerce Agency, including the agency's international trade and investment promotion programs, was repealed in 2003, which significantly reduced the government's capacity to assist California firms in developing global business opportunities. As a result, there is great concern that California lacks a comprehensive economic strategy to protect and promote its port activity. SB 460 would make the Business, Transportation and Housing Agency (BTH) the primary state agency to coordinate the marketing and promotional strategies for international trade of California's various ports."
- 2) Doubling exports in five years: In January 2010, President Obama announced a national goal of doubling U.S. exports within five years, setting a 2015 target for U.S. exports of \$3.14 trillion. In accomplishing this goal, the federal government will be proposing new programs, targeting existing trade related activities, and increasing funding and technical assistance within current programs.

Since the announcement of the new national goal in early 2010, exports from California were up \$20 billion over 2009. For California, the second largest exporter of products in the U.S. and the largest receiver of foreign direct investment in the nation, this federal goal could result in significant new economic opportunities.

The National Export Initiative (NEI), the mechanism by which the federal Administration is managing activities and funds related to increasing U.S. exports, has identified eight priority areas, as follows:

- Increasing exports among small- and medium-sized enterprises including support for trade promotion and export financing;
- Creating more opportunities for U.S. sellers to meet with foreign buyers, especially in the area of green technologies;
- Increasing the number of U.S. trade missions abroad and those coming to the U.S., as well as improving coordination with state government trade offices and national trade associations;
- Leveraging multiple federal agencies in the foreign trade advocacy and extending outreach efforts to more U.S. companies;
- Making more credit available through existing credit programs, developing of new financial products, and streamlining applications and processes;
- Working to sustain a global economic recovery to support expanding markets for U.S. products;
- Removing of trade barriers through the successful conclusion of World Trade Organization (WTO) Doha Rounds, the Trans-Pacific Partnership Agreement, resolving

the remaining issues related to the U.S.-Korea Free trade Agreement, and robust monitoring and enforcement of WTO trade rules; and

- Enhancing advocacy and trade promotion services, including providing better economic data for decision making and increasing coordination among existing export promotion efforts.

The first \$30 million round of funding to assist states in achieving NEI goal is available through the Small Business Administration. BTH has chosen not to apply for the funding and, instead, the Community College System is applying under the auspices of the Centers for International Trade Development (CITD). It is anticipated that a successful California application could result in \$3 million for local and state collaborative trade promotion efforts.

- 3) Trade promotion through market orders: Marketing orders and marketing agreements are two types of legal structures designed to help stabilize market conditions and increase an industry's comparative advantage to similar companies in other regions of the U.S. and around the world. Industries voluntarily enter into these types of agreements, which are sometimes structured within federal and/or state statute.

The advantages of marketing orders and agreements can help to (1) maintain the high quality of products or services within the market; (2) standardize practices; (3) regulate the flow of products and services within the market; and (4) authorize production research, marketing research and development, and advertising.

Marketing orders differ from marketing agreements are that they are binding on all individuals and businesses that are classified as “handlers” in a geographic area covered by the order. Marketing agreements are binding only on handlers who are voluntary signatories of the agreement. These agreements and orders are generally directed through advisory committees, the membership of which is nominated by the industry and appointed by a government official, such as a Secretary of an agency. The advisory committee works to develop regulations that are then voted on by the entire industry. Regulations become binding on the entire targeted group if approved by at least two-thirds of the producers by number or volume.

While most commonly associated with the agriculture industry, market orders and agreements are used in a range of industries. As an example, the California Tourism Marketing Act establishes the California Travel and Tourism Commission as a separate, independent California nonprofit mutual benefit corporation with the purpose of increasing the number of persons traveling to and within California. The committee may wish to consider whether the promotion-focused business partnership should, among other priorities, research and make a recommendation on how the broader California business and transportation community could participate in a market order targeted at California trade promotion activities.

- 4) The ITI Strategy: 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 in developing a new international trade and investment program. Agreements on the new program were codified in SB 1513, Chapter 663, Statutes of 2006.

Under California's new trade and foreign investment framework, state activities are required to be directed through the development and implementation of the ITI Strategy. The ITI Strategy is prepared every five years based on current state and regional economic research and a public vetting with the Legislature to ensure the inclusion of jointly agreed upon goals and measurable objectives. The current International Trade and Investment (ITI) Strategy was finalized in August 2008, and the next strategy is due in August 2013.

The ITI Strategy takes an industry sector approach based on the state's core and emerging industries. By emphasizing the development of deeper relationships within core and emerging industry sectors and their trade associations, the strategy better aligns with other economic development activities at the local level and increases the impact of the state activities and investments. Below is the list of dominant and emerging industries from the 2008 ITI Strategy research.

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 the 2008 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, the ITI Strategy includes a set of specific actions, including timelines, priority levels, and measurable outcomes. Examples of ITI recommended actions include: (1) 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; and (2) facilitating export trade promotion through participation in key industry trade shows and business match-making activities during trade delegations visits. The ITI Strategy also strongly relies on coordinated efforts with existing federal and local public and private stakeholders. SB 460 would statutorily enhance those provisions by requiring the establishment of a goods movement focused trade partnership. Existing law only requires consultation with business leaders. Both are important stakeholder groups.

- 5) California's trade economy: International trade is a very important component of California's \$1.9 trillion economy. If California were a country, it would be the 11th largest exporter in the world. Exports from California accounted for over 11% of total U.S. exports in goods, shipping to over 226 foreign destinations in 2010.

California's land, sea, and air ports of entry serve as key international commercial gateways for products entering the country. California exported \$143 billion in goods in 2010 (up from \$120 billion in 2009), ranking second only to Texas with \$163 billion in export goods. Computers and electronic products were California's top exports in 2010, accounting for 30.1% of all state exports, or \$43 billion.

<b>2010 Exports From California to the World</b>		
<b>Product</b>	<b>Value (\$)</b>	<b>Percent</b>
334 Computers & Electronic Prod.	43,075,351,414	30.1 %
333 Machinery (except electrical)	14,486,638,626	10.1 %
336 Transportation Equipment	12,957,683,521	9 %
325 Chemical Manufactures	11,590,683,001	8.1 %
339 Misc. Manufactures	11,502,854,621	8 %
111 Agricultural Products	9,353,709,931	6.5 %
All Others	40,301,943,159	28.1 %
Total	143,268,864,273	100 %

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 \$21 billion (15%) in goods in 2010. The state's second and third largest trading partners are Canada and China with \$16.1 billion (11%) and \$12.4 billion (8.6%), respectively. Other top-ranking export destinations include Japan, South Korea, Taiwan, the United Kingdom, Hong Kong, Germany, and Singapore.

Relative to last year, the value of California products exported to other counties increased significantly in 2010 (\$143 billion v. \$120 billion). In California's highest export category, computer and electronic products, exports in 2010 almost reached their 2006 high (\$43 billion v. \$44.3 billion).

- 6) State Trade and Foreign Investment Infrastructure: In support of local and private sector trade and investment activities, the state has several ongoing programs, including the Foreign Trade Zones (FTZ), the EB5 Program and the Centers for International Trade Development.

FTZs are areas within the state where goods may be imported without adhering to all U.S. Customs rules or tariffs. The program is designed to promote foreign trade and global supply chains while retaining domestic employment that might otherwise go to foreign countries. Merchandise admitted into a zone may, among other things, be stored, exhibited, repacked, assembled, graded, cleaned, processed, tested, labeled, and mixed with foreign merchandise. There are two types of FTZs – General Purpose and Subzone Purpose Zones. Subzones,

sponsored by a General Purpose Zone, are generally located within an industrial park or port complex whose facilities are also used by the general public. These zones are established by the federal government with companion state statute authorization. California has 17 out of the 234 general purpose FTZs in the U.S., including zones located in Eureka, Imperial, Long Beach, Los Angeles, March JPA, Merced, Oakland, Palmdale, Palm Springs, Sacramento, San Diego, San Francisco, Port Hueneme, San Jose, Santa Maria, Southern California Logistics Airport, and Stockton.

Another key geographically targeted program is the EB5 investment visa program administered under the federal Immigration Act of 1990, which authorizes the issuance of 10,000 new green cards a year based on new foreign investment made in the U.S. Persons applying to this program must demonstrate that they have invested a minimum of \$1 million and that later they have created at least 10 direct jobs, or have invested \$500,000 in certain targeted high unemployment areas and that later they have created 10 direct or indirect jobs.

Based on 2010 state figures and a high unemployment rate defined as 14.4% or greater, 56 cities, 13 counties, 21 rural areas, and 11 metropolitan statistical areas in California have been identified as eligible target areas. Some states, such as South Dakota, have specific programs that target foreign investment by people who want to apply for visas under the investment provisions.

The California Community College System administers the state's Centers for International Trade Development. These 8 Centers for International Trade Development, located in a majority of the urban areas of the state, offer technical assistance and consultation to firms doing business, or seeking to do business, globally. The northern most areas of the state are serviced through offices in Community Colleges located in Sacramento and San Bruno, and the most southern center is located in Chula Vista.

Services provided through the Centers for International Trade Development include, but are not limited to: free or low cost import and export education programs; one-on-one counseling; access to international trade shows; opportunities to join trade missions; a "Help Desk" for advising on international business transaction challenges; and access to an trade information database ([www.citd.org/trade\\_info/index.cfm](http://www.citd.org/trade_info/index.cfm)) on its Web site. The Centers for International Trade Development serve over 2,500 businesses and entrepreneurs in California each year.

- 7) Current session related legislation:: Below is a list of related legislation from the current session:
- a) AB 1137 (V. Manuel Pérez) – Trade Promotion and Export Finance: This bill makes a number of changes to programs designed to assist local communities and businesses, enhance the local business climate, and create jobs by increasing foreign trade and investment including providing authorizing the establishment of the California Trade Promotion and Export Finance Program, codifying the state's role in the EB-5 Program, and making technical corrections to the international free trade zone program. Status: Pending in the Senate Appropriations Committee.
  - b) AB 1409 (JEDE) – Goods Movement Update to the State Economic Strategy: This bill requires that the next update of the international trade and investment strategy include

policy goals, objectives and recommendations from the state Goods Movement Plan (GMAP), as well as related measurable outcomes and timelines. Status: Pending in Senate Appropriations Committee.

- c) AB 1410 (JEDE Committee) – Trade Omnibus Bill: This bill makes technical, non-substantive amendments to the codes relating to international trade and foreign investment. Specifically, this bill reorganizes 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: Pending on the Senate Floor.
- 8) Related legislation from prior sessions: Below is a list of related legislation, some of which are discussed earlier in the analysis.
- a) AB 3021 (Nuñez) - California-Mexico Border Relations Council: This bill established the six-member California-Mexico Border Relations Council (Border Council) comprised of all Agency Secretaries and the Director of the Office of Emergency Services for the purpose of coordinating activities of state agencies. The Border Council is required to report to the Legislature on its activities annually. Status: Signed by the Governor - Chapter 621, Statutes of 2006.
- b) AJR 14 (Jeffries) – Customs Duties: This resolution memorialized the President of the U.S. and Congress to enact legislation to ensure that a substantial increment of new revenues derived from customs duties and importation fees be dedicated to mitigating the economic, mobility, security, and environmental impacts of trade in California and other trade-affected states across the U.S. Status: Approved by both Houses, Resolution Chapter 73, Statutes of 2007.
- c) AJR 27 (Torrico) – Support U.S.-Colombia Trade Promotion Agreement: This resolution memorialized Congress that the California Legislature opposes the United States-Colombia Trade Promotion Agreement. Status: Approved by both Houses, Resolution Chapter 145, Statutes of 2010.
- d) AJR 55 (Villines) – Support U.S.-Colombia Trade Promotion Agreement: This resolution would have memorialized Congress that the California Legislature supports the United States-Colombia Trade Promotion Agreement. Status: Refused adoption in the Assembly Committee on Jobs, Economic Development, and the Economy in 2008.
- e) SB 1513 (Romero) – New International Trade Program: **Final Compromise - California International Trade and Investment Act**. This bill provided new authority for the BTH to undertake international trade and investment activities, and as a condition of that new authority, directs the development of a comprehensive international trade and investment policy for California. This bill reflects extended bi-partisan discussions between the Senate and the Assembly. Status: Signed by the Governor - Chapter 663, Statutes of 2006.

#### REGISTERED SUPPORT / OPPOSITION:

Support

Pacific Merchant Shipping Association (sponsor)  
California Chamber of Commerce  
The California Trade Coalition

Opposition

None received

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