

MEMORANDUM

TO: Joint Finance Committee

FROM: Pam Reichert, Colorado International Trade Office (ITO)

DATE: March 4, 2010

SUBJECT: Update on International Trade Developments

CC: Don Marostica, Executive Director, OEDIT

In accordance with C.R.S 24-47-101 (2)(g), which states:

The Colorado International Trade Office shall inform the General Assembly about ongoing trade negotiations, trade developments, and the possible impacts on Colorado's economy and laws.

The Colorado International Trade Office has prepared this memorandum to bring the legislature up to date on the above noted issues.

International Trade Developments

The global recession has led to the largest drop in international trade since 1945, according to the World Trade Organization. The volume of global trade dropped an estimated 12 percent in 2009, according to a report by the World Trade Organization. This is the largest drop in trade since 1945. U.S. exports of merchandise goods, commodities and agricultural products fell 19 percent in nominal US dollar terms in 2009 and Colorado's exports dropped 25 percent. The financial crisis, an unprecedented decline in global demand, lack of export working capital and trade finance lines all contributed to the decline in exports. Please see the attached press release for more details on Colorado's exports for 2009.

International Trade Policy Initiatives at the Federal Level

The administration of U.S. President Barak Obama announced the National Export Initiative this year with the stated goal to double US exports over five years to support two million jobs through exporting. The Initiative includes a newly created Export Promotion Cabinet, and enhancement of funding for key export promotion programs, the mobilization of government officials to engage in export advocacy activities, the launch of export tools for small- and medium-sized businesses, the reduction in barriers to trade, and the opening of new markets.

President Obama's 2010 trade agenda reaffirms the United State's commitment to honor our international trade obligations, reiterates the administration's commitment to enforce U.S. rights under existing trade agreements, and to utilize trade policy to achieve our national energy and environmental goals. Most importantly, the administration recognizes that trade is a key tool in creating jobs and has committed to fighting for market access abroad and to responding to unfair foreign competition. Some highlights of the federal government effort include:

- The U.S. Department of Commerce leads the President's National Export Initiative and will receive additional federal funding to promote trade and enhance efforts of the department to serve as an advocate for U.S. companies abroad.
- The Export-Import Bank of the United States has been tasked with increasing its lending to small- and medium-sized businesses (SME) and has already authorized \$1 billion in small business financing and has added 112 new small business clients since the end of last year. EX-IM's goal is to increase SME lending to \$6 billion, up from \$4 billion over the next year.
- The U.S. Trade Representative's Office has created a new position, the Assistant Trade Representative for Small Business. Small business is the backbone of Colorado and the United States as a whole, and USTR has created an advocate for small business and held forums to provide a voice for small business in trade negotiations.
- The Federal Reserve is holding forums around the country with financial institutions and small business to better understand current barriers to lending and providing information on existing export lending programs to business and banks.

Colorado International Trade Office Promotion Programs

In response to the recession, the ITO is meeting with many more Colorado companies looking to diversify and enter foreign markets to increase sales due to weak domestic demand. The Colorado International Trade Office has responded with the following programs:

Colorado Export Development Grant (CEDG): ITO has created a program that includes export counseling, market reports and small grants of between \$500 and \$2,000 to assist companies in entering a new foreign market. Funds can be used for travel, appointment setting or technical assistance needed to adapt products for foreign markets.

The Colorado Export of Innovative and Sustainable Technologies (CO-EXist): The ITO has created CO-EXist to assist Colorado exporters of products and services in the clean-tech industry cluster to China and Mexico. Program activities include incoming and outgoing trade delegations, Colorado booths at key trade shows in China and Mexico, and ongoing exporting and technical assistance through ITO and many community partners. The program recognizes Colorado's innovative and competitive products and the importance of China and Mexico, where the State already has market share and the potential to greatly expand it. This program is made possible through a Market Development Cooperator Grant from the U.S. International Trade Administration.

Trade Negotiations, pending international trade agreements and their potential impact on Colorado's economy:

There are currently three bilateral trade agreements that have been signed by the United States and the respective countries that have not been forwarded to the US Congress for ratification. These are bilateral agreements with Colombia, Panama and South Korea. They have not been brought to a vote in the U.S. Congress, in part because of the transition last

year to a new U.S. administration. The Obama administration is working to resolve outstanding issues with these pending agreements. The administration is working with the Colombian government to address labor code issues and measures to address violence against labor union officials. With Panama, they are in discussions to reform Panama's labor regime to achieve consistency with the pending trade agreement and pursuing transparency in tax rules. With Korea, they are trying to negotiate outstanding issues, particularly related to market access for automobiles and beef. Once these issues have been resolved, the trade agreements will be forwarded to Congress for consideration. According to the US Department of Commerce International Trade Administration, the United States Trade Representative, and the US Department of Agriculture, the treaties could benefit many Colorado industries.

U.S. – Colombia Trade Promotion Agreement (TPA): Most Colombian products currently enter the United States duty-free under the unilateral Andean Trade Preference Act and the Generalized System of Preferences. However, U.S. exports do not receive the same treatment for entry into Colombia, and the TPA would provide reciprocity for U.S. exporters. Over eighty percent of U.S. exports of consumer and industrial products to Colombia will become duty-free immediately. U.S. farm exports to Colombia that would receive immediate duty-free treatment include high quality beef, wheat, fruits and vegetables and many processed foods. Apparel will be duty-free and quota-free immediately under rule of origin requirements. Computers and electronic products currently subject to import duties generally between 5 – 10 percent, would receive duty-free treatment immediately. Exporters of chemical and related products, including pharmaceuticals, cosmetics, fertilizers and agro-chemical would benefit from tariff reductions.

U.S. – Panama Trade Promotion Agreement (TPA): Over 90 percent of Panamanian goods enter the United States duty free under unilateral U.S. trade preference programs. Overall, 88 percent of U.S. consumer and industrial exports to Panama would benefit from immediate duty-free status. The remaining duties will be phased out over a period of 10 years. Colorado will benefit from the elimination and reduction in tariffs on computers and other information technology equipment, construction and agricultural machinery, and chemical products (including pharmaceuticals, cosmetics, fertilizers and agro-chemicals). The FTA assures competitiveness for U.S. service providers for the Panama Canal expansion as well as other service providers (telecommunications, financial services and other professional services). The elimination and phase out of tariffs on agricultural products, including beef, dairy and wheat could benefit Colorado farmers.

U.S. – Korea Free Trade Agreement (FTA): Computers and electronics products, a leading export sector for Colorado, would become more competitive from a reduction in Korean tariffs currently ranging between zero and 13 percent. Processed foods would benefit from the elimination of tariff and non-tariff barriers to trade—some immediately and others over a five-year period. Machinery manufacturers would receive duty-free treatment immediately on products including refrigeration compressors, water filtering and purifying equipment. Currently, tariffs for such products are as high as 8 percent. Close to two-thirds of U.S. agricultural exports would be immediately duty-free upon implementation of the FTA with Korea.

Trade Negotiations and Developments and Impact on Colorado Law:

We are not aware of any Colorado statutes that could be determined to be an impermissible barrier to trade under the above mentioned pending bilateral agreements. Additionally, we

continue to review and analyze these free trade agreements to assess their impact on the export of Colorado goods and services.

Attachments: Colorado 2009 Exports Press Release
Fact Sheet on Colorado's Key Exports and Markets