

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

2/11/2010

FOR IMMEDIATE RELEASE

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Colorado's 2009 Exports Down 25 Percent

Global financial crisis and recession greatly impacted demand for goods worldwide.

Colorado's exports of manufactured, agricultural and mineral products dropped 24.6 percent to \$5.8 billion in 2009, down from \$7.7 billion in 2008. In comparison, total U.S. merchandise exports declined 18.7 percent. The global financial crisis and resulting recession have greatly impacted the demand for goods worldwide. Global trade has suffered its steepest drop since World War II, according to the International Monetary Fund.

Among Colorado's top 10 exports, automatic data process machines (-56.1%), electronic integrated circuits (-26.2%) and beef (-23.9%), showed the steepest declines. At the same time, petroleum (103.1%), photo film (36.2%), orthopedic devices (28.7%), and medical and surgical equipment (3.4%) grew significantly in U.S. dollar terms. Colorado registered exports of civilian aircraft engines and parts (\$209 million) for the first time in 2009.

Colorado's merchandise exports have structurally changed over the past few years as the high-tech export categories of electronic integrated circuits and automatic data process machines have declined significantly with the closing of some facilities and production shifting overseas to be nearer to end-user facilities. As a result, other goods, such as medical devices, print machines and commodities including oil, beef, pork, and molybdenum ores have become more important to the state's export profile.

Canada retains its position as Colorado's top export market with exports totaling \$1.7 billion in 2009, down from \$2.1 billion in 2008, a 22 percent decline. Key exports to Canada include petroleum, organic chemicals, beef, pork and civilian aircraft parts. Mexico retains its position as Colorado's second largest export market with \$583.8 million in sales in 2009, a 39 percent drop. Mainland China remained third with \$441.4 million in exports, a 13% decrease, and Japan moved up to fourth at \$276.4 million, followed by Germany, Malaysia, the Netherlands and Switzerland.

Colorado companies shipped 44% of the state's exports to the other countries of the Americas, on par with 2008. This is followed by 28.9 percent to Asia, up from 27 percent in 2008. Colorado exports to Europe represent 20.5 percent of the state's total exports, followed by 4.5 percent to the Middle East and Africa and 2.4 percent to Australia/Oceania for 2009.

"The ITO and other partners, including the US Export Assistance Center and the World Trade Center believe that Colorado exports will partially recover in 2010, assuming continued stabilization of the global economy and improved access to working capital and trade finance", notes Pam Reichert, Colorado International Trade Director. Industries that are

likely to benefit from increased global demand for goods and services this year include medical devices, cleantech, aerospace, agriculture and mining.

The Colorado International Trade Office is responding to the needs of Colorado exporters with two specific programs to help place products and services overseas. The Colorado Export of Innovative and Sustainable Technologies (CO-EXist), promotes Colorado cleantech exports to China and Mexico and is funded by a Market Development Cooperator Grant from the U.S. International Trade Administration. ITO also runs the Colorado Export Development Grant to assist Colorado SME's to enter new export markets.

These statistics have been gathered from the World Institute for Strategic and Economic Research (WISER) from the raw data supplied by the U.S. Census Bureau, Foreign Trade Division and the Origin of Movement Series. The U.S. Census Bureau data includes manufactured, agricultural and mineral products and does not include services, which are not broken out by states.

The Colorado Office of Economic Development and International Trade offers a host of programs and services tailored to support business development at every level. They include business retention and relocations service, a bioscience and emerging industries program, business finance programs like the Venture Capital Authority and CAPCO, the Colorado Tourism Office, the Colorado Council on the Arts, the Colorado International Trade Office, the Colorado Small Business Development Centers, minority- and women-owned business services and economic research. For more information or to sign up for OEDIT's free eNewsletter, visit www.AdvanceColorado.com.

Colorado Export Statistics 2009

OEDIT Specific Programs and Services

Business Finance:

*Certified Capital Companies
Business Loan Funds
Venture Capital Authority
Infrastructure Assistance
Feasibility Studies
Economic Development
Commission*

Business Retention, Expansion and Recruitment:

*Research, Facilitation
Incentives, Job Training
Site Selection
Community Assessments*

Council on the Arts

*Art and Organization
Development
Arts Education
Public Art*

International Trade:

*Export Assistance and
Trade Events
Foreign Investment in
Colorado*

Minority and Women-Owned

Business Support:

*Certification and
Procurement
Opportunities*

Small Business Development Centers:

*Counseling
Research
Training*

Tourism:

*Welcome Centers Colorado.com
Visitor's Guide
Marketing, Advertising and
Public Relations*

General Export Statistics

- Colorado's exports in 2009 totaled \$5.7 billion, down 24.6 percent over 2008.
- Colorado exported to 196 foreign destinations in 2009.
- A total of 4,459 companies exported from Colorado locations in 2007 (the latest year for which data is available), an increase of 7.8 percent over 2006. Of those, 3,909 (88 percent) were small and medium-sized enterprises with fewer than 500 employees.
- Small and medium-sized firms generated 28 percent of Colorado's total exports of merchandise in 2007 (source: International Trade Administration and Bureau of the Census, Foreign Trade Division).

Top Export Markets (ranked by U.S. dollar value)

Annual 2009			
	ALL PARTNER COUNTRIES	5,780,011,885	
1	Canada	1,672,381,014	6 Malaysia 179,246,292
2	Mexico	583,805,946	7 Netherlands 175,684,953
3	China (Mainland)	441,371,674	8 Switzerland 159,311,826
4	Japan	276,446,687	9 Belgium 151,134,775
5	Germany	220,653,278	10 Philippines 150,896,691

Of these ten countries, over the period of 2005-2009 Colorado's largest growth market for exports was Switzerland. Colorado's exports to Switzerland increased from \$78.5 million in 2005 to \$158.3 million in 2009, or 102 percent. Of these ten countries, three others accounted for large increases in merchandise exports from Colorado over the 2005-2009 period, including Belgium (101 percent), Philippines (94 percent), and China (23 percent).

Top Exported Products in 2009 (ranked by U.S. dollar value, using 2-digit HS codes)

ANNUAL 2009		
	TOTAL ALL COMMODITIES	5,780,011,885
1	Optical, Photo Etc., Medic Or Surgical Instruments Etc	964,362,362
2	Industrial Machinery, Including Computers	898,056,840
3	Electric Machinery Etc; Sound Equip; TV Equip; Pts	780,315,743
4	Meat And Edible Meat Offal	521,164,879
5	Mineral Fuel, Oil Etc.; Bitumin Subst; Mineral Wax	327,174,044
6	Organic Chemicals	324,935,444
7	Photographic Or Cinematographic Goods	283,193,452
8	Aircraft, Spacecraft, and Parts Thereof	223,936,160
9	Plastics And Articles Thereof	111,825,217
10	Raw Hides And Skins (No Furskins) and Leather	109,110,473

In 2009, optical, photo and medical/surgical instrumentation comprised CO's number one export category (HS code 90), overtaking industrial machinery incl. computers (HS code 84). From 2008-2009, exports of optical fibers and bundles demonstrated the greatest increase in percentage terms (134.4 percent). Orthopedic appliances accounted for the largest increase in U.S. dollar terms at \$34.3 million, or 28.6 percent.