



# CALIFORNIA COUNCIL FOR INTERNATIONAL TRADE

700 Montgomery Street, Suite 305, San Francisco, CA 94111

Tel: (415) 788-4127 Fax: (415) 788-5356

VOL. XIV, NO. 6

July 1990

## GOLDEN STATE AWARD

CCIT's 1990 Golden State Award will be presented to Governor George Deukmejian, on October 4 at the St. Francis Hotel.



Governor George Deukmejian

The Governor has led a dynamic process which has brought the State of California, in eight years, from a minor international role with no overseas locations, to an integrated global network of in-state and overseas offices and a total budget of \$13 million.

In this period, Governor Deukmejian has:

1. Presided over the design and start-up of California Trade and Investment Offices in Tokyo, London, Mexico City, Hong Kong and Frankfurt, all located in areas of great export and/or inward investment potential. Each office is staffed with true international business professionals; common pitfalls of illogical office locations and politically motivated appointments of unqualified officers have been avoided. No means a small task!
2. Appointed an outstanding World Trade Commission, chaired by Bob Monagan, which leads the State's export promotions activities, including an outstandingly successful Export Finance Office with a national reputation.
3. Personally participated in overseas missions which facilitated the successful launching of each Californian office. These trips were conducted with dignity, and included contacts with the highest officials of the countries visited.
4. Led the seventeen-state Western Governors' Association in a two year focus on Going Global which has generated a series of cooperative international activities serving to increase the effectiveness and lower the costs of California's own global activities.
5. Above all, has been dedicated to the "internationalization" of state government, and to helping Californian companies to develop their international opportunities.

CCIT has been instrumental in helping to focus these international activities on serving California businesses. CCIT Chairman Jerry Levine wrote the pioneering Feasibility Study on Overseas Offices which launched the initiative in 1985.

## BUDGET CRISIS THREATENS INTERNATIONAL TRADE PROGRAMS

By Kathy Krause\*

The unresolved budget crisis has left many international trade programs in a state of limbo. A last minute bipartisan effort to close the \$3.6 billion budget shortfall led the State Senate to eliminate the \$3.7 million agricultural export marketing program.

Earlier this year the states Legislative Analyst loudly criticized the program on two counts: 1) the awarding of significant matching grant funds to major corporations who could undertake foreign marketing activities without state money, and 2) the practice of issuing grants to the same entities year after year. It is interesting to note that this year AB 1938 by Assemblyman Norm Waters removed legislative intent that \$5 million be annually appropriated to the program — making it easier for the Legislature to cut the program.

The Senate's action does not necessarily mean the end of the agricultural exports matching grants program. The Assembly must also approve the cut. However, given the Senate action, it is possible that the Assembly may now follow suit in fashioning a final budget for the state.

The Agricultural Export Program was not the only program teetering on the brink of elimination. Early in June the World Trade Commission learned that its entire 1990-1991 proposed budget (\$2.6 million) had been eliminated in the Assembly's version of the state budget. (The Senate version left the budget intact.) That action jeopardized all commission offices and activities including the Office of Export Development (Long Beach), the Export Finance Offices (Los Angeles and San Francisco) and the Office of Policy and Research (Sacramento).

The Assembly's drastic action was prompted by concerns that the Export Finance Program issued no loan guarantees to black-owned businesses and their practice of giving multiple loan guarantees to individual companies.

Greg Mignano, WTC Executive Director, defended the Export Finance program's record of assistance to minority businesses. Specifically:

— 1/3 of all loan guarantees made by the Export Finance Board had

(continued page 4)

## BANK NOTES

By Roger Hartman\*

Last week East Germans converted their Ostmarks to Deutsche Marks and embarked on an uncertain voyage into a free-market economy. After 50 years of state-run business and central planning, the monetary union was greeted with both euphoria and apprehension by the average East German worker. Western goods are being welcomed with open pocketbooks, but Western competition is a less attractive prospect. Heavy industry in East Germany is inefficient and outdated. As government subsidies disappear and competition heats up, plant closures and unemployment are expected to run rampant. Most forecasts are for unemployment to rise to 20-25% in the next few months. Strikes are already brewing at many plants while workers try to negotiate their way into existing West German unions.

The extent of social unrest that could arise from such drastic changes is an unknown factor and a major concern to the West German government. Although Chancellor Kohl professes undying optimism for the recovery of the East German economy, the ultimate measure of success will be how quickly East Germany can attract private capital investment to create new jobs. If the bankrupt state-run industries cannot be sold to private investors, the West German government will end up financing a much larger portion of the economy than they anticipate.

As with most economic forecasts, the outcome of this grand experiment is dependent on many unpredictable factors. One gauge of the financial markets' faith in the ability of the Germans to emerge from this historic transition intact is the recent strength of the Deutsche Mark (DM), the day after the monetary union, the DM appreciated from 1.66 to 1.65, and has since traded at 1.6450. Although the exchange rate did not increase dramatically, neither did it drop as many dealers had expected. The consensus of market opinion seems to be a "wait and see" approach. The pay out on any investment in East Germany is likely to be very long-term, and only companies who are willing to pour a lot of money into new facilities and retraining workers will be involved in the initial phase of rebuilding. However, the long-term prospects do look very good and will probably attract the necessary capital over time. East Germany has one big advantage over its Eastern European competitors as the adopted child of West Germany. After all-German elections in December, Germany will once again be a single political and economic entity. East Germany will not have to experiment with their reforms but will have an experienced partner and ready-made government and business institutions to support their introduction to the Western world. As East and West Germany look forward to a unified future, the DM will take center stage in the world foreign exchange and financial markets. In the context of European Economic union in 1992, the new Germany seems well prepared to accept this role.

*\*Roger Hartman is Vice President and manager of the International Trade services Division at Wells Fargo Bank.*

## GATT UPDATE

By Lisa Giarretto



*Fred Montgomery,  
Office of the USTR*

CCIT recently hosted Fred Montgomery, the Private Sector Coordinator for Multilateral trade Negotiations for the office of the US Trade Representative. Mr. Montgomery's discussion on the 8th Round of the General Agreement on Tariffs and Trade (GATT) was held at the offices of Orrick, Herrington & Sutcliffe in San Francisco.

Mr. Montgomery expressed his mandate as one of providing the opportunity for interested parties to contribute to the actual negotiation process. He posited that public input can later be carried over into U.S. legislation.

Among all the pressing issues, agricultural trade issues pose the greatest challenges for GATT negotiators. The success of this 8th Round may indeed hinge on resolving member differences in this critical area, particularly between the EC and the U.S.

Several challenging "new issues" are being negotiated at this Uruguay Round, such as the issue of intellectual property. New text is being drawn up to formal structure for the establishment of standards, enforcement, and dispute settlement guidelines. Included in the "new issues" category is the "services" sector. Montgomery commented that the entire 8th Round could have been devoted to this one area alone. The financial sector does not want to be included in the services area, but wants to be considered alone, as does the transportation sector. The investment area, or "TRIMS", which stands for trade related investment measures, is seeking "inward" investment measures and increased liberalization for the entire sector.

Tensions between the developing and the more developed countries exist in all three "new issue" areas, Montgomery noted. Balance of payments problems continue to haunt the developing countries. GATT participants overwhelmingly recognize the need to allow developing countries to maintain protective trade barriers for a transition period. The question of when to remove these barriers promises to remain at issue, although most parties agree they should not remain in place indefinitely.

Montgomery reminded us that the GATT has always been considered a "second best" solution, and as the GATT is only a provisional agreement, a need exists for a permanent international trade organization. This issue of creating a permanent trade organization undoubtedly creates political questions, such as "who will make up the membership of this new, non-provisional international organization?"

The only Middle Eastern members are Israel and Egypt.

# SACRAMENTO LEGISLATIVE UP-DATE

By Kathy Krause\*

## EXPORTS:

### AB 2585 (SHER) STATE TIMBER EXPORT PROHIBITION

This bill would require, with specified exemptions, that state agencies purchase lumber products only from sellers and manufactures who obtain timber from owners of forest land who do not sell logs or cants for foreign export or manufacture finished timber at foreign-based facilities. It would also prohibit, with specified exceptions, the sale or resale of timber from state forests to any California division of a primary manufactures who uses that timber at a plant outside the United States.

Status: In Assembly Ways and Means

### AB 3942 (HARVEY) EXPORT DOCUMENTATION

This bill would authorize any person who ships to another state or country a food, drug, devise or cosmetic manufactured in this state to request the State Department of Health Services to issue an export documentation to accompany the shipment. It would authorize the department to refuse to issue an export document if specified conditions are not met.

Status: Senate Health and Human Services

### AB 3589 (SPEIER) MARKETING CALIFORNIA COMMISSION

This bill would create a 15-member Marketing California Commission to promote California goods and services both nationally and internationally. In addition the Commission would develop and implement a "Marketing California Campaign."

## FOREIGN INVESTMENTS

### ACR 138 (BURTON) NORTHERN IRELAND

This resolution reaffirms the Legislature's support of the MacBride Principles of Fair Employment and directs the Auditor General to determine the extent to which U.S. firms in which state retirement system funds are invested and which have business operations in Northern Ireland, adhere to the standards of fair employment encompassed in the MacBride Principles of Fair Employment and the provisions of the Fair Employment Act (Northern Ireland) of 1989 and to submit a report to the Legislature on or before January 1, 1991.

Status: Senate Floor

### ACR 84 (ELDER) INTERNATIONAL INVESTMENT GUIDELINES

This resolution requests the Teachers' Retirement Board and the Board of Administration of the Public Employees Retirement System to re-examine the issue of developing political, economic and human rights guidelines for their investments abroad and which guidelines should apply to both direct foreign investments by those boards and to those indirect foreign investments which are undertaken whenever the stock of a multinational corporation is purchased.

Status: Senate Floor (Inactive File)

## TRADE DEVELOPMENT

### AB 2602 (POLANCO) CALIFORNIA-MEXICO BONDING AUTHORITY

This bill would create in state government a nine-member California and Mexico Infrastructure Bonding Authority. It would be empowered to issue revenue bonds and finance projects in California and Mexico (Baja California and Baja California Sur). Among other uses, revenue bonds would be used to finance infrastructure improvements to support the expansion of the maquiladora program, mitigate environmental hazards and facilitate traffic flows along the California-Mexico border.

Status: Assembly Floor

### AB 2852 (FARR) GLOBAL APPLIED TECHNOLOGY EXTENSION SERVICE

This bill would create the Global Applied Technology Extension Service within the California State World Trade Commission which would take advantage of new growth markets for California products by promoting the global commercialization of California products and technologies.

Status: Senate Appropriations

### AB 3169 (SPEIER) CANADIAN OFFICE

This bill would require the California State World Trade Commission to establish a trade and investment office in Canada.

Status: Failed passage in the Assembly

### SB 1875 (TORRES) PHILIPPINES OFFICE

This bill would require the Office of the Governor to establish a overseas trade office or trade showcase in Manila, Philippines.

Status: Assembly Economic Development, International Trade and Technologies Committee

### AB 4026 (VASCONCELLOS) PRAGUE TRADE OFFICE

This bill would require the California State World Trade Commission to establish an overseas trade office in Prague, Czechoslovakia on or before January 1, 1991.

*Sacramento Legislative Up-Date continued from page 3*

Status: Senate Appropriations

#### AB 4197 (FRAZEE) TAX EXEMPTIONS

This bill would exempt from California Sales and Use Taxes property shipped by a retailer to a point outside this state by means of facilities operated by the seller, consolidator, packer, or inspector, or delivery by the seller consolidator, packer or inspector to a carrier, customs broker, or forwarding agent, whether hired by the purchaser or not, for shipment to the point outside the state.

Status: Senate Revenue and Taxation Committee

#### AGRICULTURAL TRADE

#### AB 1938 (NORM WATERS) AGRICULTURAL EXPORT MARKETING PROGRAM

(signed by the Governor, chapter 100, statutes of 1990)

This bill makes changes in the Foreign Market Development Export Incentive Program including the following: requires that specified state marketing order boards funds be counted as cooperator contributions, revises the definition of agricultural commodities to include livestock fed in feedlots, increases the amount dedicated for administrative purposes from \$400,000 to \$500,000 annually, designates a chairperson for the advisory committee which reviews project proposals, allows closed door meetings under specified conditions, and deletes legislative meetings under specified conditions, and deletes legislative intent that \$5 million be annually appropriated to the program.

Status: Signed by the Governor, Chapter 100, Statues of 1990.

#### SB 2714 (VUICH) TRADE BARRIERS DATABASE

This bill would require the California State World Trade Commission to select and hire a consultant or institution to develop a database of all significant agricultural trade barriers imposed by nations which are members of the General Agreement on Tariffs and Trade (GATT).

*Budget Crisis continued from page 1*

gone to minority or women-owned businesses.

— The Commission spent \$225,000 in outreach programs geared to the minority business community, including an export development program specifically targeting the black business community.

— WTC developed a data base of women and minority-owned business with experience in international trade and investment.

Mignano said the multiple loan guarantee policy reflected that it can take several transactions over a period of years before a company can go it alone and apply directly to a bank for working capital for exporting.

Quick action in the form of a letter of support for the commission and its programs by CCIT helped. The six-person conference committee recommended approval of the budget as originally proposed adding budget control language which would require the export finance program to develop an outreach program for black-owned businesses.

A \$1 million augmentation in the export finance fund from the Unitary Fund remains uncertain due to the budget crisis.

*\*Kathy Krause is a private consultant specializing in international trade policy.*

*Legislative Update continued from previous column*

Status: Assembly Economic Development, International Trade and Technologies Committee

The Legislature resumes business on August 7.

## NEW MEMBERS

### Presidential Circle

United Parcel Service

Pleasanton

### Sponsor

Fujitsu America, Inc.

Mitsubishi Electronics America

San Jose

Cypress

### Major Corporation

Tri-Valley Growers

San Francisco

4

### Medium Corporation

Neale-May & Partners

Franz, Inc.

Tobin & Tobin

Los Altos

Berkeley

San Francisco & LA

### Small Business

Hotzmann, Wise & Shepard

Nippon Mining Co., Ltd.

Normandy Region of France  
(U.S. Representative)

Palo Alto

San Francisco

Palo Alto

### Individual

Dr. Francoise Lepage

San Rafael

### CCIT Board Welcomes New Members

By Michael Bianco\*

CCIT's Board of Directors welcomed over 80 new members and guests to our organization at a reception sponsored by Chevron Corporation at the World Trade Club in San Francisco on June 26th.

The enrollment of United Parcel Service, Fujitsu, Mitsubishi Electronics and Tri-Valley to CCIT represents important new achievements in CCIT's ability to serve leading companies from diverse industries engaged in international business. Enrollment of new members in most of the other categories of membership offers further encouragement to the membership development effort. We anticipate further expansion of membership at all levels of participation as CCIT continues to gain visibility as the private sector leader in international trade policy in California.

The well attended reception, generously underwritten by Chevron, is an effective and enjoyable new approach. A diverse group of companies, attorneys, accountants and individuals demonstrated a keen interest in CCIT's statewide program. Several guests immediately signed up as new members after the reception and others are expected to follow in the near future. Similar events are under consideration for the Central and Southern regions.

Several volunteers are assisting by developing a database of membership candidates and contacting prospective members. They include: Eric Abdulateef, Brant Gard, Kathleen Perrone, and Cory Smith. A new CCIT member, Neale-May & Partners, is developing a new logo and promotional materials which will offer prospective members an updated picture of CCIT's programs and activities.

For further information on membership call the CCIT Secretariat at (415) 788-4127 or Michael Bianco at (415) 951-4698.

*\*Michael Bianco is Vice President of CCIT for Northern California and President of Asia Pacific Capital*



*Assistant Treasurer  
Alan Levenson*



*Steve North, Chevron Corp.,  
at the World Trade Club*

By Jim Whittaker\*

The stage is being set for a showdown in Congress over whether to accept President Bush's recommendation that "Most Favored Nation" (MFN) status be extended to the PRC another year.

Many members of Congress oppose this, and want to revoke MFN status in order to express their outrage at the Tiananmen Square disaster of last summer, and their annoyance with the Chinese government's continued hardline policies toward the democracy forces in China. Revocation of MFN would have an impact far beyond other economic sanction actions taken to date.

MFN allows products exported from the PRC to enter the U.S. at a low duty rate accorded most of our trading partners. Without it, import duties would be raised many times on such products, making them more expensive or simply no longer competitive in the U.S. market.

Opponents of revocation, including CCIT, AEA, and the U.S.-China Business Council, point out that revocation of MFN status won't help achieve U.S. objectives in China, primarily because such action would hurt those in the commercial sector — the business people, entrepreneurs, those in the "special economic zones" — who are most committed to reform and democracy. They argue we should look for ways to support those liberalizing elements.

In addition, opponents of revocation point out that this action would seriously impact U.S. business relationships and operations in the short and long term. American operations in China exporting their products to the U.S. stand to be disrupted. Secondly, to the extent that Chinese authorities retaliate, which is likely, U.S. exports to and sales in China will be damaged. It would also impact heavily upon Hong Kong industrialists and businessmen with relationships with countless U.S. firms. And since no other country is considering similar actions, revocation of MFN could simply lead to handing over much of this business to our foreign competitors.

MFN status will be extended unless Congress, by majority votes in both Houses anticipated in late July, acts to overturn the White House's recommendation. Hearings were held in the House and Senate Trade subcommittees June 18 and 19, with witnesses from industry, the Administration and other groups. Highlighting these sessions was testimony by Deputy Secretary of State Laurence Eagleburger, pro-MFN testimony by American grain exporters, toy manufacturers, and multinationals, and anti-MFN testimony by human rights groups, U.S. labor, and Chinese students. A growing list of members of Congress now advocate an extension of MFN conditional upon improvement in China's human rights record.

Careful education on the part of industry representatives is critical to help persuade Members of Congress that while it is natural to want to "do something", revocation of MFN would be both counterproductive and damaging to U.S. foreign policy.

*\*Jim Whittaker is an international trade policy specialist at the Hewlett-Packard Company.*

## CCIT People

CCIT's Board Of Directors welcomed two new members to its ranks at their June 26th meeting: **Alan Levenson**, an international tax specialist at Deloitte & Touche, will be Assistant Treasurer in addition Co-Chairing the Taxation Committee and the Editorial Board. . . **Michael Huerta**, the Executive Director of the Port of San Francisco, is known to many for his work on the '89 Golden State Award Dinner. . . **Mr. Makoto Ejima** will move early August to Los Angeles to begin his new position as SVP and Regional Officer, Pacific Southwest Headquarters and General Manager of the Los Angeles office of Mitsui & Co. (USA), Inc. CCIT welcomes **Mr. Fumihiko Tsukano** who will succeed him . . . **Janice** and **Patrick McEntee** are the proud parents of **Julia Lynn**, born May 14th . . . **Walt Payne** has been appointed Executive Vice President and Chief Operating Officer of Blue Diamond Growers in Sacramento. . . **Cynthia Cory** has accepted a position as Director of Commodity Affairs at the California Farm Bureau Federation. . . **Tim Lynch** was recognized by the Governor for outstanding professional achievement and has been appointed to the project group on U.S.-Vietnam trade within the U.S. State Department's Economic Council. **Congratulations to all.** . . Late this summer **Graham & James** will expand their global network to include representation in London and Hong Kong . . . **Scott Morse** has recently incorporated and is now operating as Morse Agri-Energy Associates.

## CCIT Calendar, July 1990

### August 9

Eastern Europe/Soviet Union interest group will meet at 8:00 a.m. for breakfast to discuss ways in which CCIT can facilitate trade between California, Eastern Europe and the Soviet Union. For more information call (415) 788-4127.

### August 14

CCIT Executive Committee meeting, 10:00 a.m. at the Secretariat.

### August 14

The Uruguay Round: Setting the Stage for Trade in the 90's. Hugo Paemen, EC's Chief Negotiator for the Uruguay Round of the GATT will address CCIT members and guests. 12:00 noon. Call (415) 788-4127 for more information.

### October 4

Golden State Award Dinner: honoring Governor George Deukmejian at the Westin St. Francis Hotel, 6:00 to 9:30 p.m. Watch for details.

#### CCIT's Editorial Advisory Board

H. Dethero, R. Hartman, M. Johnson and A. Levenson are members of CCIT's Editorial Advisory Board. Type setting and composition by Stork and Glenn.

CCIT gratefully acknowledges the generous support of American President Lines and Chevron Corporation toward production of this newsletter.