SB 893

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 893 (Senator Manno)
Finance

Commission on Free Trade, Currency Manipulation, and State Sovereignty - Establishment

This bill establishes the Commission on Free Trade, Currency Manipulation, and State Sovereignty as an ongoing commission. The Department of Legislative Services (DLS) and the Department of Business and Economic Development (DBED) must provide staff for the commission.

Fiscal Summary

State Effect: General fund expenditures for DLS and DBED increase in total by $198,700 in FY 2016, escalating to $283,500 by FY 2020, for staff and contractual resources necessary to staff the commission. Of that amount, $161,200 is for DLS and $37,500 is for DBED in FY 2016, which escalates to $231,400 for DLS and $52,000 for DBED by FY 2020. Neither agency has the requisite expertise in-house to staff the commission.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	$0	$0	$0	$0	$0
GF Expenditure	198,700	262,800	269,400	276,300	283,500
Net Effect	($198,700)	($262,800)	($269,400)	($276,300)	($283,500)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None. Establishing a State commission does not affect local governments.

Small Business Effect: None. Establishing a State commission does not directly affect small businesses.

Analysis

Bill Summary: The commission must:

- conduct an annual assessment of the legal and economic impact of international trade agreements on State and local laws, State sovereignty, and the business environment in the State;
- provide a mechanism by which members of the General Assembly and members of the public can provide input regarding the legal and economic impact of international trade agreements on State and local laws, State sovereignty, and the business environment in the State;
- work with interested groups in other states to develop means to resolve the conflicting goals and tension inherent in the relationship between international trade agreements and state sovereignty;
- develop recommendations to protect the job and business environment of the State and State sovereignty from any negative impacts of international trade agreements; and
- if requested by the Governor or the General Assembly or on the commission's own initiative, consider and develop recommendations regarding how the State should respond to challenges and opportunities presented by a specific international trade agreement.

The commission may recommend legislation to address any issues presented by international trade agreements.

The commission must submit any recommendations regarding how the State should respond to challenges and opportunities presented by a specific international trade agreement to the Governor, the Maryland Congressional Delegation, and the General Assembly.

The commission must submit an annual report to the Governor, the Maryland Congressional Delegation, the Senate Finance Committee, and the House Economic Matters Committee on its activities and any recommendations, including legislation, developed by the commission.

Current Law/Background: The United States has 14 free trade agreements currently in force with 20 countries. Of those in effect, the earliest began in 1985 (Israel) and the most recent began in 2012 (South Korea). The frequency of the agreements is sporadic: after the first agreement in 1985, the next agreement was in 1994, then 2001. This was followed by a relatively high level of activity from 2004 through 2009, in which agreements with 14 countries were made. This averages to less than one per year, although volume has been relatively higher recently.

The commission must also consider Trade Investment Framework Agreements (TIFAs), Bilateral Investment Treaties, Environmental Goods Agreements, and Trade in Services Agreements.

The first TIFA was established in 1989 and the most recent was established in 2013. With 49 TIFAs in total, this averages to about 2 per year, although there have been some years with no TIFAs and some years (such as 2004) with as many as 9 TIFAs. For Bilateral Investment Treaties, the earliest was in 1982 and the most recent was in 2008. With 42 Bilateral Trade Agreements, this also averages to about 2 per year.

Environmental Goods Agreements were first created in 2014 and include the United States and 13 other countries. Trade in Services Agreements began in 2013 and so far have 23 participating countries. They focus exclusively on service industries.

Maryland Exports

According to the U.S. Department of Commerce, Maryland's exports of merchandise in 2014 totaled $12.2 billion. Of that amount, $3.8 billion (31%) was to countries with which the United States has free trade agreements. From 2005 through 2014, exports from Maryland to these markets grew by 70%.

Maryland posted merchandise exports of $1.9 billion to Canada in 2014, representing 15.3% of the State's total merchandise exports. Canada was followed by Saudi Arabia ($915 million), China ($714 million), Egypt ($619 million), and the United Kingdom ($487 million).

A total of 7,386 companies exported from Maryland locations in 2012. Of those, 6,529 (88.4%) were small and medium-sized businesses with fewer than 500 employees. Small and medium-sized firms generated 29.1% of Maryland's total exports of merchandise in 2012.

State Fiscal Effect: Assuming the volume of international trade agreements remains consistent with that experienced in the past, the commission likely must evaluate at least four, and potentially significantly more, international trade agreements each year. The agreements are each likely to involve multiple countries.

Neither DLS nor DBED has the requisite expertise in-house to staff the commission. DBED has an economist on staff but lacks the requisite legal expertise in international trade agreements. DLS also does not have sufficient staff expertise in international trade agreements.

Therefore, general fund expenditures for DLS and DBED increase in total by $198,683 in fiscal 2016, which accounts for the bill's October 1, 2015 effective date. This estimate reflects the cost of DLS hiring one economist to provide economic analysis of international trade agreements. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. It also includes $75,000 for DLS and $37,500 for DBED contractual services.

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Salary and Fringe Benefits	$81,459
DLS Contractual Services	75,000
DBED Contractual Services	37,500
Other Operating Expenses	4,724
Total FY 2016 State Expenditures	**$198,683**

Future year expenditures reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses and ongoing contractual services for both DLS and DBED. If the volume of international trade agreements increases above historical averages, general fund expenditures for contractual services may increase significantly above this estimate.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, U.S. Department of Commerce (International Trade Administration), U.S. Department of State, Office of the United States Trade Representative, Department of Legislative Services

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