

BORDER COMMERCE COORDINATOR REPORT

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INTRODUCTION

Texas and Mexico are intertwined by history, geography and a common purpose. We share a 1,254 mile border and are also connected by commerce, as Mexico is our number one trading partner. Relationships of family, friends and free enterprise flow across the border to the benefit of both entities, and roughly one-third of Texas' 23 million citizens can trace their lineage to our southern neighbor. These strong ties are further manifested by more than 30 Sister City relationships between Texas and Mexico. We are bound together by a shared history, a blended culture, and an exciting future that represents the opportunity for many shared successes.

While borders are often thought of as points of distinction and division, they also serve as points of connection and commonality. The Texas-Mexico border is a place where the past, present and future of two neighbors are intertwined in a story of close ties and economic cooperation. It is not so much a barrier as it is a 1,200 mile bond that joins us together through our similarities. This shared border is truly a hub of commerce, opportunity and prosperity.

Trade with Mexico is vital to the state's economy and an important component of our efforts to enhance the quality of life of Texans living in the border region. Border commerce also plays an important role in the economic prosperity of our state as a whole. There are many economic benefits of international trade at the national, state and local levels, and it is important to continue developing mechanisms to foster trade between Texas and Mexico. The role of the Border Commerce Coordinator is to serve as a conduit for communication and coordination of border initiatives between local officials, state agencies, and the federal governments of the United States, Mexico and Canada. As Secretary of State, there are other roles that are complementary to this role, including the Chief International Protocol Officer for the State of Texas, Presiding Officer of the Border Trade Advisory Committee, and the Governor's Chief Liaison to Mexico and the Border Region of Texas.

In today's economy, business activities transcend borders more and more. Texas has benefited significantly in this globalized business climate by utilizing an extensive network of public, diplomatic and corporate entities to facilitate the creation of commercial opportunities. Under the leadership of Governor Rick Perry, the state has taken bold steps to create a welcoming climate for business, whether domestic or international. Texas has led the nation in export revenue for seven consecutive years. For 2007, the Foreign Trade Division of the U.S. Census Bureau reported exports for Texas exceeding \$168 billion.

International corporations with a presence in Texas reap the benefits of proximity to their customer base, a prepared and proficient workforce, and state leaders that want them to succeed. According to the Bureau of Economic Analysis of the U.S. Department of Commerce, Texas remains the top-ranked global destination for foreign direct investment (FDI) and ranked third nationally for the number of "insourcing" jobs as of 2007, with a total of 368,200 Texans employed by foreign-owned companies. Texas also ranked second for the number of international trade-related jobs in U.S. states, according to a 2007 report published by the Business Roundtable. In Texas, private companies are creating jobs to meet the demand for products that they are selling in this state, across America, and all over the world— jobs that provide countless opportunities for Texans and their families.

OVERVIEW OF RESPONSIBILITIES AND ACTIVITIES

The duties of the Border Commerce Coordinator (BCC) are outlined in Section 772.010 of the Texas Government Code. These duties include:

- (1) Examining trade issues between the United States, Mexico and Canada;
- (2) Acting as an ombudsman for government agencies within the Texas and Mexico border region, helping to reduce regulations by improving communication and cooperation between federal, state and local governments;
- (3) Studying the flow of commerce at ports of entry between this state and Mexico, including the movement of commercial vehicles across the border, and establishing a plan to aid this commerce and improve the movement of commercial vehicles;
- (4) Working with federal officials to resolve transportation issues involving infrastructure, including roads and bridges, to allow for the efficient movement of goods and people across the border;
- (5) Working with federal officials to create a unified federal agency process to streamline border crossing needs;
- (6) Working to increase funding for the North American Development Bank to assist in the financing of water and wastewater facilities;
- (7) Exploring the sale of excess electric power from Texas to Mexico;
- (8) Working with the interagency work group established under Section 772.011, and with local governments, metropolitan planning organizations, and other appropriate community organizations and comparable Mexican entities to address the unique planning and capacity needs of these areas, and assisting those governments, organizations, and entities to identify and develop initiatives to address those needs;
- (9) Working with private industry and the appropriate entities of Texas and the United States to require that low-sulfur fuel be sold along highways in Texas carrying increased traffic related to NAFTA activities; and
- (10) Working with representatives of the government of Mexico and the Mexican states bordering Texas to increase the use of low-sulfur fuel.

A high-level summary of activities conducted in support of these duties is described on the following pages.

Examine trade issues between the United States, Mexico and Canada

The BCC activities concerning border and international commerce for 2008 revolved primarily around two strategies aimed at helping the State's efforts in economic development and job creation: promoting Texas companies and their goods and services abroad; and assisting in recruitment efforts to encourage foreign companies to locate in Texas. Support of these strategies included participating in Texas OneSM missions, as well as hosting delegations from Mexico and Canada throughout the year.

NAFTA has significantly impacted trading relations between Mexico, Canada and the United States. Data from the U. S. Department of Commerce shows that Texas' trade with Mexico has grown more than 448% since NAFTA began. In 2007, foreign direct investment by Mexico employed 13,200 people in the Lone Star State, and accounted for capital investments of approximately \$1.5 billion in gross property, plants and equipment in Texas, according to data from the U.S. Bureau of Economic Analysis.

The Texas-Mexico border is open for trade in both directions. The Foreign Trade Division of the U.S. Census Bureau cites Mexico as Texas' largest trading partner and top export destination. More goods and services are exported from Texas to Mexico (\$56 billion) than any other U.S. state. The U.S. Census Bureau Foreign Trade Division's data also shows 33% of Texas' total exports in 2007 went to Mexico which, in turn, represented 41% of the United States' total exports to Mexico. Their data confirms that Mexico was the top country of origin for Texas imports in 2007, with approximately \$141.4 billion in imported goods, or 49% of all Texas imports.

This back-and-forth flow of commerce is beneficial for all parties involved. As one example, for every \$1 in goods shipped south through the Port of Laredo, approximately \$1.50 in goods and products heads north, according to data provided by the United States Census Bureau. By reducing trade barriers, we have expanded opportunities. The free flow of trade and commerce has created many positive effects for our state's economy including increased revenues, jobs and expanded opportunities for Texans to do business abroad.

In our increasingly global marketplace, Texas-based companies have found themselves competing with companies around the world for business, investment and strategic partnerships. With affluence increasing beyond the Texas and U.S. borders, the Lone Star State has worked to build bridges into international markets to maximize the benefits of Texans' ingenuity, hard work and quality products. Trade missions undertaken to recruit foreign companies to Texas are essential to continue and expand such efforts. By carrying the message beyond our borders that "Texas is wide open for business," these efforts have promoted financial investment, job creation, and enhanced trade relationships for Texas companies.

Act as an ombudsman for government agencies within the Texas and Mexico border region, helping to reduce regulations by improving communication and cooperation between federal, state and local governments

To promote a spirit of cooperation, coordination efforts between local officials in both Texas and Mexico must receive significant attention. Formal and informal coordination efforts with Mexican federal and state government agencies are important, and one role of the Border Commerce Coordinator is to promote cooperation with, and an understanding of, U.S. policies amongst our Mexican counterparts. It is also important to cultivate open dialogue between federal, state and local governments on matters related to border commerce. Fortunately, the respective entities involved recognize how important open lines of communication are in fostering productive and successful trade opportunities. It is important to continue working with Mexican stakeholders who share common goals in relation to trade between Texas and Mexico. Texas partners with the border states of Mexico to utilize integrated approaches for many important aspects of a successful trading partnership, including regional partnerships and integrated approaches to address economic development, infrastructure, trade logistics and improving competitiveness.

Study the flow of commerce at ports of entry between this state and Mexico, including the movement of commercial vehicles across the border, and establish a plan to aid this commerce and improve the movement of commercial vehicles

Another important responsibility of the Border Commerce Coordinator involves the movement of commerce and commercial vehicles at points of entry across our shared border. The border region is a busy commercial zone. The importance of promoting the efficient flow of goods between Mexico and the U.S. cannot be overstated. Providing a balance between required inspections and efficient trade flow is also important.

Coordinating with U.S. Federal and Mexican stakeholders, existing international border crossing procedures and infrastructure should be examined on a continuing basis to identify any efficiencies that can be gained. International border crossing plans should be developed in close coordination with Mexican and U.S. stakeholders to promote the use of the latest technologies, procedures and infrastructure on both sides of the border in a manner that expedites trade without compromising safety and security. Maintaining a balance that protects the public interest in a manner that does not compromise or stifle the free flow of commerce is crucial.

In the Border Trade Advisory Committee (BTAC) Report published in November of this year, BTAC members shared initiatives being undertaken throughout the border region to address the efficient movement of goods and people across our borders. Stakeholders in the El Paso area have set up an interagency ad hoc committee designed to improve border crossing operations. Working together, TxDOT, the City of El Paso, the El Paso Metropolitan Planning Organization, Customs and Border Protection, and Ciudad Juarez will analyze different measures to reduce wait times at border crossings.

The El Paso MPO, Municipal Institute for Planning and Research in Ciudad Juarez, Customs and Border Protection and the Texas Transportation Institute are implementing a system at the Bridge of the Americas in El Paso to automatically measure commercial freight border crossing times using radio frequency identification (RFID) technology. This data will not only help in reducing wait times, but will also assist Customs and Border Protection in assessing staffing and operational needs.

Port of Corpus Christi officials met three times in 2007 with representatives of CODEFRONT, the Corporation for the Development of the Nuevo León Border Region, to plan ways to expedite Texas exports to Mexico at the Laredo-Columbia Solidarity Bridge.

In its recent report, BTAC also emphasizes the importance of promoting efficiencies at international border crossings. Some concepts discussed to improve border crossings include eliminating the duplication of the vehicle safety inspections, combining security facilities, implementing interoperable technology, modifying hours of operation, increasing staffing levels and applying demand management techniques such as off-peak incentives, or value pricing. They underscore the importance of ensuring proper staffing, resource management and appropriations for future international border crossings or the expansion of existing international border crossings in order to allow for adequate inspections while also ensuring the efficient flow of goods and services.

As trade and traffic continues to increase, coordinating with officials of both nations and our own state government to facilitate improvements to existing international border crossings should be an important priority. Encouraging and promoting more effective checkpoints that do not hinder our economic relationships, but instead encourage the free flow of commerce is becoming increasingly important.

Work with federal officials to resolve transportation issues involving infrastructure, including roads and bridges, to allow for the efficient movement of goods and people across the border and work with federal officials to create a unified federal agency process to streamline border crossing needs

Another important component of the efficient movement of people and goods across our borders is an effective infrastructure network. The extensive port, rail and transport system Texas enjoys makes it an ideal gateway to markets in Latin America, Mexico and the United States. Trade policies supported by adequate transportation infrastructure will stimulate the flow of goods in the state. As BTAC noted in their report last month, efficient multimodal trade corridors in Texas with connections to the Mexican transportation system are imperative in fostering trade with Mexico.

Fortunately, the leaders of this state have worked hard to make Texas' transportation system the best in the nation. Maintaining and improving transportation infrastructure is essential to the long-term health of the Texas economy. As such, it is important to continue working to address immediate transportation needs by improving and expanding existing roads, while continuing efforts to meet future infrastructure challenges that accompany the state's rapidly growing

population. Continually analyzing the state's infrastructure to better accommodate the growing needs of Texas businesses and the expanding population of our state is more important than ever, given the significant increases our state is experiencing in trade, traffic, and population.

The Border Commerce Coordinator is also tasked with working with the federal government to create a unified process to streamline border crossing needs. Several studies currently underway will provide additional guidance and insight for such discussions upon completion. The Federal Highway Administration is undertaking a Freight Performance Measurement initiative aimed at measuring travel times in freight-significant corridors, including border wait times at major U.S. land border crossings. TxDOT and TTI are among those participating in this initiative. Once hard data is available for crossing times, it will be possible to measure the success of improvements that are implemented at the border and to make additional recommendations to the federal government. TxDOT also established an interagency workgroup regarding the presidential permit application process. This workgroup's recommendations are currently under review by the Department of State.

Work to increase funding for the North American Development Bank to assist in the financing of water and wastewater facilities

The Border Commerce Coordinator also works with the North American Development Bank (NADBank) to secure funding to assist in the financing of water and wastewater facilities along the border. NADBank and its sister institution, the Border Environment Cooperation Commission (BECC), were created under the auspices of NAFTA to address environmental issues in the U.S.-Mexico border region. The work of NADBank is valuable to the colonias residents along the Texas-Mexico border. The Colonia Initiatives Program was created to improve the quality of life for colonia residents along the border, and includes efforts to connect colonia residents' homes to water and wastewater services. As part of this program, eight colonia ombudsmen work in the border counties with the highest colonia populations: Hidalgo, El Paso, Starr, Webb, Cameron, Maverick and Nueces. The ombudsmen work alongside representatives from NADBank and BECC to identify, monitor and seek funding for water, wastewater and other physical infrastructure projects.

An Interagency Coordination Group, originally assembled by the Office of the Secretary of State and comprised of 13 federal and state agencies, continues to meet on a quarterly basis in an effort to improve coordination, share information, and assist in the planning of the State's efforts to strengthen physical infrastructure in colonias along the Texas-Mexico Border. NADBank and BECC are active participants in this group.

The group's objectives are:

- To collaborate in coordinating specific infrastructure-project information and data;
- To identify project barriers and provide an avenue for collective problem solving;
- To expedite the delivery of basic services to colonia residents; and
- To provide progress updates on colonia initiatives and projects.

Participating agencies also discuss the availability of program funding for current and upcoming colonia projects, upcoming events, and opportunities for collaboration.

NADBank established the Border Environment Infrastructure Fund (BEIF) to help make infrastructure projects affordable for communities throughout the U.S.-Mexico Border region by combining grant funds with loans and other forms of financing. Water and wastewater infrastructure projects located within 100 kilometers (62 miles) of the U.S.-Mexico border are eligible for funding consideration. BEIF funds may be used to support projects that serve a single community or for regional approaches that serve multiple communities. Eligibility is based on a set of project selection criteria and other financial guidelines. Staff from the Texas Border and Mexican Affairs Division continues to work with state agency representatives, the U.S. Environmental Protection Agency (EPA), and other federal officials regarding BEIF opportunities and water and wastewater facilities for colonias in Texas.

Explore the sale of excess electric power from Texas to Mexico

Texas is recognized as a national leader in energy production and innovation, and energy has long been a part of our state's economic identity. The Border Commerce Coordinator is tasked with exploring the sale of excess electric power from Texas to Mexico. Texas has an obligation to plan for the future prosperity of the border and can do so, in part, by expanding energy ties within the region. It is remarkable to note that as of 2007, Mexico, with a population half the size of the United States, has just approximately 5% of the electrical generating capacity. As demand grows and the resources used to generate energy dwindle, there is great opportunity to help our southern partners. Cross-border electricity initiatives allow for two-way electricity transfers between Texas and Mexico, and can help support the continued success and expansion of border commerce for years to come.

The Sharyland DC tie, located in the Rio Grande Valley, is a 150 megawatt facility linking the Electric Reliability Council of Texas (ERCOT) grid with the Comisión Federal de Electricidad (CFE) grid of Mexico. The project is the first facility built of its kind and enables the commercial trade of electricity between the United States and Mexico. Though its initial capacity is 150 megawatts, it is capable of expanding to 300 megawatts. Benefits of the DC tie include providing emergency power on both sides of the border, voltage support, and increased opportunities in commercial trade.

Also of significance is the 100 megawatt Variable Frequency Transformer (VFT) located near Laredo, Texas. It allows power to be transferred in either direction between Texas and Mexico. Another DC tie with 36 megawatts is in place between ERCOT and the CFE in Eagle Pass and has been operational for approximately 10 years. The primary purpose of these resources is to provide emergency assistance to either ERCOT or CFE.

In August, Texas OneSM organized the Annual Texas Energy Trade and Investment Mission to Mexico City. The mission focused on Mexico's new policies in the energy industry and provided valuable insight regarding the future of this sector. The visit offered a unique glimpse into PEMEX projects and partnerships and provided insight into the diverse viewpoints of

Mexican leaders regarding the energy industry in Mexico. The Texas delegation, which consisted of State officials and energy-sector executives, met with officials from Mexico's Energy Regulatory Commission regarding other possible opportunities for interconnectivity in the near future. It was very informative and allowed the group to witness the potential opportunities of interest for the oil and gas industry first-hand.

Interagency work group

The Interagency Work Group on Border Issues was created to assist state agencies as they work to develop initiatives that address the unique needs and matters of concern for border communities.

The Work Group is comprised of representatives from the following agencies:

1. Office of Rural Community Affairs
2. Texas Department of Housing and Community Affairs
3. Texas Water Development Board
4. Texas Department of Transportation
5. Texas Commission on Environmental Quality
6. Texas Workforce Commission
7. Department of State Health Services
8. Health and Human Services Commission
9. General Land Office
10. Texas Education Agency
11. Division of Economic Development and Tourism, Office of the Governor
12. Texas Office of State-Federal Relations
13. Texas Higher Education Coordinating Board
14. Office of the Attorney General
15. Office of the Secretary of State (Presiding Officer)
16. Texas Department of Public Safety
17. Railroad Commission of Texas

The group met earlier this fall to discuss and coordinate programs and services offered to border communities. The group also discussed the effect of policies instituted by the federal government that impact the border region. Members also completed a survey as a method of obtaining an update on the various activities of participating agencies. The responses received depict a wide range of functions and programs, along with many success stories and challenges. Additional tabulation of these responses and the appropriate follow-up will occur in early 2009.

Working with representatives of the government of Mexico and the Mexican states bordering Texas to increase the use of low-sulfur fuel

The final responsibility of the Border Commerce Coordinator involves working with private industry and appropriate government entities regarding the sale of low sulfur fuel along

highways in Texas, as well as working with the Mexican Government and Mexican States to increase the use of low sulfur fuel.

In 2005, the Texas Commission on Environmental Quality (TCEQ) partnered with the EPA to ask Mexican federal, state, and PEMEX officials to begin selling ultra-low sulfur diesel (ULSD) fuel in border cities and along transportation corridors in northern Mexico. In 2006, Mexico modified the sulfur content in its fuels and announced that ULSD would be available in all border cities as of January 2007. While most of the border states did not receive supplies of ULSD until later in 2007, TCEQ has been assured by Mexico that the ULSD roll-out in the border region has been completed. Mexico City, Guadalajara and Monterrey are also scheduled to have roll-out programs in place sometime in 2009, with the remainder of the country following.

Until December of 2008, all the ULSD Mexico needed was imported from the United States, with a substantial portion of it coming from Texas. PEMEX has now completed retrofitting one refinery and recently began selling domestically produced ULSD in the Mexican border region. President Felipe Calderón dedicated PEMEX's Cadereyta refinery just outside of Monterrey, Nuevo León, on December 8, 2008. This refinery will produce ULSD for distribution to the Mexican side of the Texas-Mexico border.

TCEQ has participated with other U.S. and Mexican agencies in a November 2008 workshop titled "Optimum Use of Ultra Low Sulfur Diesel." The workshop was funded and organized by the Hewlett Foundation and the environmental agency of the State of Nuevo Leon. TCEQ will also participate in a similar workshop in Nuevo Laredo in the spring of 2009, which will discuss industry and diesel engine retrofit technologies for municipalities in Mexico.

CONCLUSION

The border region plays an important role in efforts to foster a superior business climate in Texas. Texas and Mexico are united by a shared goal of economic success and the benefit that this success ultimately brings to the collective region. There are many unique characteristics, needs and challenges associated with this region. The border should not be seen as a barrier, but as a place of mutual respect, cooperation and shared opportunity.

Together, Texas and Mexico should continue to address common challenges and explore shared opportunities that benefit communities on both sides of the border. The border region is our gateway to the future – the front door of Texas where "opportunity comes knocking," and together, both partners can continue to compete and win in the global marketplace. Encouraging constructive dialogue that leads to economic growth is an important part of working with federal, state and local officials on both sides of the border.

Texas is competing internationally for jobs and economic development activities and must remain committed to seizing opportunities to bolster international investment in Texas. Maintaining a business-friendly environment that continues to attract companies and supports innovation and competitiveness helps ensure the continued prosperity of Texas.

As states and nations vie for the attention of employers and capital investments, Texas must work to enhance our already strong competitive position. Leaders continue to work with the public and private sectors to identify opportunities to maintain and enhance Texas' economic edge and competitive position in the global marketplace. Continuing to promote commerce, opportunity and prosperity along the border enhances and secures Texas' sustained position as an economic leader.