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## FISCAL IMPACT REPORT

**SPONSOR** Garcia, MP **ORIGINAL DATE** 1/28/15  
**LAST UPDATED** 2/12/15 **HB** 206/aHGEIC

**SHORT TITLE** Cuban Trade Office **SB** \_\_\_\_\_

**ANALYST** Clark

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	\$25.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

Responses Received From  
Economic Development Department (EDD)

### SUMMARY

#### Synopsis of Amendment

The House Government, Elections and Indian Affairs Committee amendment strikes all references to “office” and replaces them with “mission” to clarify the bill establishes a mission to promote trade with Cuba and not necessarily a trade office.

#### Synopsis of Bill

House Bill 206 appropriates \$25 thousand from the general fund to the Economic Development Department (EDD) for work pursuant to the Cuban Trade Act created by the bill. The Cuban Trade Act establishes a Cuban trade office within EDD, headed by a director appointed by the cabinet secretary. The director shall promote trade between New Mexico businesses and Cuba, including identifying potential partners and buyers in Cuba, assisting with marketing New Mexico goods and services to Cuba, assessing the potential of Cuban markets, and accompanying New Mexico businesses and government officials to meetings in Cuba.

The director shall also respond to an inquiry by a New Mexico business or by EDD related to the work of the office within five days of receipt of the inquiry and shall prepare an annual report to EDD, the appropriate interim legislative committee, and the Legislative Finance Committee.

### FISCAL IMPLICATIONS

The appropriation of \$25 thousand contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal year 2016 shall revert to the general fund.

### **SIGNIFICANT ISSUES**

EDD reports establishing the office will require close to six months to identify contractors and establish working protocols under contract. Prior state trade office openings required negotiations and preliminary work in outlining business opportunities in the markets that were being considered, including Taiwan, Mexico, Brazil, Israel, and prior markets that did not succeed such as Japan and Germany. There are no prior contacts or channels of distribution established in the Cuban market, and the Cuban economy is centrally planned, so all business will be done essentially with the government and government owned companies.

As noted by EDD, Cuba currently remains under a trade embargo, and any opening will be slow and gradual, with some sanctions remaining subject to milestones being met by the Cuban government in extending freedoms to local opposition groups. Private enterprise in Cuba is not yet recognized by the government and would require cumbersome procedures to find local hires with business contacts. Prior experience within EDD of opening foreign trade offices demonstrates that success and returns on investment do not occur until past the one-year mark. Currently, New Mexico exports to Cuba are minimal, and EDD notes market prospects for the near term appear to be brighter in other overseas markets which currently import more from New Mexico. For example, state exports to Brazil increased from \$6 million to \$48 million over a three year period since the opening of the New Mexico trade office in Sao Paulo.

### **ADMINISTRATIVE IMPLICATIONS**

EDD notes the bill appropriates less than the cost of one FTE to administer the office. All current funding for the Office of International Trade is provided under a grant from the U.S. Small Business Administration under the State Trade and Export Promotion (STEP) program. The funding is earmarked for assisting New Mexico companies with booth space and fees for participating in trade missions. To be successful, a state trade office requires constant interaction and travel to maximize the returns. Current trade office services provided to the state in Brazil and Israel are in the form of services rendered by contractors. EDD does not pay for office space, equipment, or local hires, which are all the responsibility of the contractors.

### **ALTERNATIVES**

Instead of creating a separate Cuban trade office, EDD suggests appropriating funds to the existing Office of International Trade within EDD to organize and lead trade missions to Cuba.

JC/bb/aml