Texas House of Representatives

Interim Report to the 69th Texas Legislature

Committee on State, Federal & International Relations
TO THE MEMBERS
OF THE
69TH LEGISLATURE

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INTERIM REPORT OF THE

COMMITTEE ON STATE, FEDERAL, & INTERNATIONAL RELATIONS

TEXAS HOUSE OF REPRESENTATIVES

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October 1, 1984

We, the members of the Committee on State, Federal, and International Relations, having completed our assigned interim duties, submit this report to the Governor, the Lt. Governor, the Speaker of the House, and all members of the 69th Legislature.

Respectfully submitted,

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COMMITTEE ON STATE, FEDERAL & INTERNATIONAL RELATIONS

Interim Report: Shrimp Agreements
The Honorable Gib Lewis, Speaker of the Texas House of Representatives, charged the Committee on State, Federal, and International Relations to investigate the possibilities of initiating agreements or permits for Texas shrimpers to harvest in Mexico's Exclusive Economic Zone and to explore the basis for expansion into other commercial fisheries agreements. The Chairman of the Committee, Representative Froy Salinas, in order to research this charge, attended several meetings with Texas shrimpers, Congressional representatives, and other interested persons. Additional information was obtained at a Public Hearing of the Committee held in McAllen, Texas, on March 9, 1984; from interviews with the personnel of the Texas Department of Parks and Wildlife and the Texas Shrimp Association; and from other research sources.

BACKGROUND
Historically, U.S. and Mexican Gulf Coast shrimpers have had a close relationship due to the mutually beneficial shrimp harvests available in the Gulf of Mexico. In the mid-1970s, all of this changed. On November 5, 1975, former President Echeverria of Mexico announced his intention of creating a 200-mile Exclusive Economic Zone (EEZ). This led to the eventual addition of Article 27 to the Mexican Constitution which provided for exclusive Mexican rights over fishing in their EEZ. Under Mexican law, permits may be issued to foreign vessels only when the allowable catch of the species exceeds the harvesting capabilities of Mexican national vessels; for species reserved to Mexican cooperativas, even a surplus is not available to foreign fishermen.
In response to the announcement of Mexico's intention to create an EEZ, the U.S. Congress enacted the Magnuson Fishery Conservation and Management Act of 1976 on March 1, 1976. This created a 200-mile Fishery Conservation Zone (FCZ) similar to Mexico's EEZ with basically the same restrictions: only surplus catches were available to foreign vessels and a Governing International Fishery Agreement (GIFA) with the U.S. was required in order to continue fishing in United States' waters.

In order to implement these new laws, two agreements were negotiated between the U.S. and Mexico:

1) On August 27, 1977, the United States and Mexico signed a GIFA allowing the continuation of Mexican fishing in the FCZ. This GIFA became effective in December, 1977. Various allocations were given to the Mexican fleet in the years 1978, 1979, and 1980. However, all of the allocations were not taken due to the very slow buildup of the Mexican trawler fleet. There have been no further allocations since 1980 and the GIFA lapsed on June 29, 1981. Currently, there is no Mexican fishing in the FCZ.

2) On November 24, 1976, the U.S. and Mexico entered into a bilateral agreement which provided for the phase out of U.S. shrimpers in Mexican waters and subsequent termination of other fishing activities. The phase out of U.S. shrimping was completed by December, 1979; all other fishing activity ended by December of 1981.
The economic impact of this phase out has been of particular significance to Texas Gulf shrimpers. Because Mexican waters have been closed to them, a larger number of boats are harvesting a smaller area of sea. Many of the large boats cannot fully exploit their storage capabilities since the shrimp supply has been so depleted.

By the early 1970s, the value of shrimp and other commercial fish harvested in Mexican waters was worth at least $15 million annually. In Texas alone, an average of 565 vessels shrimped in Mexican waters between 1971-1974, and about 17 percent of Texas shrimp landings was attributable to those caught in Mexican waters. Therefore, it is vital to the continued success of the Texas shrimp industry to initiate talks to re-open Mexican waters to U.S. vessels.

SHRIMP LIFE CYCLE AND MIGRATORY HABITS

In order to understand the migratory habits of the shrimp, it is necessary to briefly outline the shrimp's life cycle. Shrimp are greatly affected by environmental conditions. They depend on healthy environments in the inland waters during their juvenile stages. Their growth rates depend upon the right water temperatures and proper salt/fresh water mix. The shrimp spawn offshore where the eggs hatch within 24 hours. The larvae use the yolk of the egg for food while going through the various stages of metamorphosis. When less than a month old and less than half an inch long, the larvae is swept by currents into the bays, salt marshes, and lagoons closer to shore. There, the juveniles grow quickly for two to three months in a less salty environment. "Adolescents" return to the open offshore water where they grow into mature adults.
In 1959, the Texas State Legislature passed legislation to protect the shrimp population along the Texas coast in the hopes of promoting the catch of larger shrimp. This act included the closing of state territorial waters (nine nautical miles) for a period of 45-60 days, aimed at giving young brown shrimp a chance to grow before being caught. It is at this last stage in the shrimp life cycle that the closure goes into effect. With the passing of the Magnuson Act and the creation of the FCZ, this nine mile zone was extended to 200 miles off the Texas coast, effective 1981.

One migratory effect of the closure has been the increased concentration of shrimp in the lower Gulf. According to the National Marine Fisheries Service (NMFS), prior to 1980, there was a 50/50 migration exchange with Mexico. Results of shrimp migration studies conducted jointly by the Fisheries Department of Mexico and the Texas Department of Parks and Wildlife also indicate that shrimp cross the international boundary in a north-south as well as a south-north direction, indicating an even exchange.

However, additional studies by the Texas Parks and Wildlife Department would indicate that the amount of migration in either direction hinges upon the time of the year and the location of the inland waters from which the shrimp are migrating. Therefore, shrimp spawned in Texas show greater southerly movements than northerly. This trend holds true for spring, early summer, and late summer-early fall periods. On the other hand, shrimp spawned in Mexican waters tend to migrate north in the spring and summer and south in the fall; thus, any restrictions
imposed by one country could greatly impact the other.

IMMIGRATION IMPACT
A supplemental issue which also impacts the shrimp industry is the pending immigration reform bill, particularly in regard to shrimp boat crews. Life aboard a shrimp boat is not particularly romantic. The length of time that a shrimp boat spends at sea can last from two weeks to two months, depending upon the size and facilities of the vessel. The boats themselves are designed and built to facilitate the harvesting of shrimp; crew comfort comes a distant second, safety third. Due to the extended amount of time at sea, it is difficult to keep the same crew from trip to trip. A great many crew members are undocumented workers from Mexico which can also contribute to the transitory nature of the job.

The proposed immigration legislation, if approved, would grant unconditional amnesty to some immigrants, but would penalize employers who knowingly hire undocumented workers. This is particularly significant for the U.S. Gulf shrimpers who rely heavily on undocumented workers as crew. One argument for the immigration bill is that illegal immigrants displace American workers in certain jobs. In reality, demand for experienced shrimpers far outweighs domestic supply. Frequently, at peak harvesting periods, a vessel must remain at dock due to insufficient crew.

One difficulty the pending legislation brings to shrimp boat owners is trying to determine how many undocumented workers there are employed on shrimp boats. Gulf shrimpers do not fall into the normal employment
patterns because they are considered independent contractors and their pay is calculated as a percentage of the total catch. Therefore, the federal government considers them to be self-employed. Employment procedure on a shrimp vessel begins with the owner who hires a captain, who must be of U.S. nationality; he in turn hires the crew. Although the boat owner records social security numbers and reports crew income, more extensive employee records are not maintained.

The incidence of alien employment is almost exclusively confined to the vessel crew. Few, if any, undocumented workers are employed by shore-side maintenance and processing facilities; therefore, if the immigration bill passes, it may cut off this supply of workers as well as hurt the shore-side industry which employs legal U.S. workers. Due to the specialized nature of their skill, undocumented fishermen generally do not attempt to assimilate into the general U.S. work force but return to Mexico to seek similar employment there.

Another argument of the immigration bill is the unfair use of taxpayer-supplied public services by undocumented workers. Due to the nature of the work, the crew on these vessels spend most of their time at sea and, as pointed out before, when the peak harvesting time is over and their services are no longer needed, they will return south of the border. The dependents of these workers as a whole remain in Mexico and are, therefore, no burden on local taxpayers and school districts.

MEXICAN COOPERATIVAS

Since the introduction of the EEZ and the eventual phase out of U.S. shrimpers in Mexican waters, Mexico has taken the initiative in re-vamping
their shrimping industry. The first step toward this was the development of Mexican cooperativas. In theory, this step would have the effect of consolidating the Mexican shrimp industry and making it more efficient. However, there have been problems with this; of the 998 private boats transferred to the cooperativas in 1982, over 140 have sunk or are beyond repair, and another 190 vessels are only sporadically operable because they require major repairs. Inoperable shrimp trawlers can be found in most Gulf ports. This state of affairs is blamed on various factors depending upon one's viewpoint. The government claims that the boats were allowed to deteriorate by the owners when it became apparent that they would be forced to relinquish ownership. The cooperative officials blame both the owners and the government ministry which handled the transfer: the owners for neglecting the vessels and the ministry for incorrectly assessing the value of the boats. The owners claim that the cooperatives do not have the administrative capabilities to manage large fleets of trawlers. Also, it is argued that the vessels deteriorated after they had been turned over to the cooperativas.

BENEFITS OF U.S./MEXICO AGREEMENTS

It would appear that the resumption of U.S./Mexican agreements could possibly benefit both countries in several ways. For example, a serious problem for the Mexican shrimp fleet is the difficulty in getting replacement parts and equipment manufactured by American companies. The problem there lies in the Mexican distribution agents. Possibly, a meeting with U.S. engine manufacturers to discuss this problem and to devise a more effective procedure for getting necessary parts and equipment to the cooperativas would be beneficial. Due to the large percentage of
Mexican shrimp boats needing extensive repair or being completely inoperable, a viable alternative for the cooperatives might be to lease, with an option to buy, boats and equipment from the U.S. when a surplus of boats and equipment exists.

Another area in which cooperation between the U.S. and Mexico could be beneficial is the establishment of a joint shrimp market program which would promote the consumption of Mexican shrimp in the United States.

The problem of contraband shrimp is another issue which could be handled jointly by the U.S. and Mexico. It is estimated that the Mexican harvest of Gulf shrimp amounts to 18,000-20,000 metric tons legally sold and to 5,000-10,000 metric tons sold outside of the co-op structure. A possible solution to this is the use of seals and certificates without which contraband shrimp could not cross the border.

CONCLUSION

In conclusion, as mentioned before, the resumption of shrimp and fishing agreements between Mexico and the U.S. could have its rewards for both countries. Attempts to pass legislation at the state level have not been successful; however, state legislative action may not be adequate for resuming these relations.

Negotiations at the federal level have been initiated by Congressmen John Breaux (D-LA) and Solomon Ortiz (D-TX), in conjunction with the U.S. Ambassador to Mexico, John Gavin, and Mexican fisheries representatives. They plan to continue to conduct meetings with the Mexican fisheries ministry in an effort to reopen Mexican waters to U.S. shrimpers.
COMMITTEE ON STATE, FEDERAL & INTERNATIONAL RELATIONS

Interim Report: Peso Devaluation
The Speaker of the Texas House of Representatives, Gib Lewis, charged the Committee on State, Federal, and International Relations to study the effect of the continuing Mexican Peso devaluations on the economies of the Texas border areas, and to devise a contingency plan to stimulate the border area economy in the event of future economic problems in Mexico.

In order to investigate this charge, the Chairman of the Committee on State, Federal, and International Relations, Froy Salinas, appointed a subcommittee composed of the following members: Representatives Joe Gamez, San Antonio; Charles Gandy, Mesquite; Anita Hill, Garland; Vice-Chair Patricia Hill, Dallas; and Chairman Salinas, Lubbock.

The subcommittee had three hearings;

March 8, 1984: Laredo, Texas
March 9, 1984: McAllen, Texas
May 11, 1984: Austin, Texas

BACKGROUND

Since World War II, Mexico has experienced rapid urban and industrial growth and is one of the few Third World nations on the brink of complete industrialization. Despite Mexico's astounding growth, structural problems within the economy began to appear in the 1970s, stressing the
tensions within Mexican society. Most Mexicans were kept from enjoying the full benefits of economic growth because of the distortion of income: ten percent of the population received over fifty percent of the income, while the poorest fifty percent of the population received only fifteen percent. As the economy has expanded, the disparity in the incomes has become more evident.

The Mexican discovery of vast petroleum reserves in the mid-1970s stimulated even more industrial expansion. However, the Mexican economy may have become overly dependent on the growth of petroleum production. The increase in the petroleum revenues encouraged private and public investors to invest in economic development and expansion. In spite of the drawbacks of doing this, it should be stressed that Mexico could not have financed this massive development without credit and loans from foreign banks and governments.

Due to their dependence on petroleum revenues and foreign monies at this time, the impact of the world-wide economic recession has been even more severe on Mexico than on other nations. As industrialized First World nations began to decrease their petroleum importation in order to sustain their own economies, Mexico began to export larger and larger quantities of oil products. This, coupled with declining oil consumption due to conservation, led to a decline in petroleum prices. Mexico, meanwhile, had accumulated a tremendous foreign debt, mostly from U.S. banks. As U.S. interest rates rose rapidly, Mexico's debt became increasingly difficult to repay. Concurrently, high inflation rates contributed to Mexico's economic problems. With continuing inflation, the peso became overvalued in re-
lation to other foreign currencies, especially the U.S. dollar. These were the crucial factors in the series of peso devaluations that soon followed. The situation is succinctly summed up by Dr. Khosrow Fatemi of Laredo State University, Laredo, Texas: "Consequently, by 1982, Mexico found itself in an inevitable situation. Its economic growth was highly dependent on imports, its government in deficit, its currency overvalued, its credit overextended; and, on top of it all, the petroleum panacea had lost its potency because of the termination of the West's onetime insatiable appetite for oil."

The first in the series of peso devaluations occurred on February 17, 1982, when the Mexican government allowed the peso's value to drop from approximately 26 to 49 pesos to the dollar. This first step was designed to assist Mexico in repaying its foreign debt. After the Mexican government realized that the first devaluation was inadequate, they acted again on August 12, 1982, with another devaluation in which the peso dropped thirty-five percent against the U.S. dollar. They also instated some other control measures and a multiple exchange rate system. A third peso devaluation came on December 20, 1982, when the value of the peso stabilized at approximately 150 pesos to the dollar. However, six months later, the Mexican government was still having difficulty maintaining the peso's value, in spite of some improvements in the Mexican economy. Therefore, on September 22, 1983, Mexico adopted a policy of gradual and predetermined devaluation: the peso would be allowed to depreciate at a rate of 13 centavos a day.
INTERDEPENDENCE OF THE U.S.-MEXICO BORDER REGION

The economy of the United States-Mexico border region is as dependent on the Mexican economy as it is on the U.S. economy. Due to the American recession of 1980-81, the border region's reliance on trade with Mexico was great. Therefore, when Mexico's economy faltered, the border region was hit from both sides. Jerry Prock, a professor from Pan American University in Edinburg, Texas, has estimated that the financial cost of Mexico's economic problems to the border region was $388.7 million in the last quarter of 1982.

Some of the factors in the border region most severely impacted by the Mexican peso devaluations were tourism, retail sales, unemployment, and international trade.

Tourism and Retail Sales

Immediately following each peso devaluation, tourism from Mexico dropped. While tourism from Mexico has increased, it will probably be some time before it reaches the level that it was prior to the economic difficulties. According to statistics compiled by Laredo State University's International Trade Institute and the Texas Economic Development Commission, retail sales, like tourism, have been adversely impacted by the peso devaluations. As a result of the February 1982 devaluation, retail sales dropped about thirty percent; in the August 1982 devaluation, sales declined an additional fifty to sixty percent. In 1983, while there were modest increases over 1982 figures, the sales averaged about forty percent less than 1981 figures. Retail sales figures for 1984 also show improvement over 1982 figures but are still lower than pre-devaluation figures. For example, in 1981, Mexican shoppers spent $4.6 billion in American businesses in border cities;
in 1982, these expenditures dropped to $450 million.

Unemployment

Closely interrelated with both tourism and retail sales is unemployment. Already hit by layoffs due to the national and international economic recessions, unemployment in the border region was at record levels in early 1982. As Mexico devalued the peso, two factors led to increased unemployment in the border region: increased Mexican migration and local layoffs by merchants affected by reduced tourist and retail sales.

While other employment rates in the State have leveled off, unemployment rates for the border region show little sign of improvement. The December 1983 freeze in the Rio Grande Valley only added to continuing massive unemployment.

International Trade

Historically, the U.S. has been Mexico's most important trading partner, accounting for more than two-thirds of its foreign trade. According to the Commerce Department's U.S. and Foreign Commercial Service, U.S. exports to Mexico dropped by twenty-three percent from 1982 to 1983 and by thirty-three percent from 1981 to 1982. Yet, by virtue of its petroleum imports to the United States and its status as the fourth highest importer of U.S. products (preceded in 1983 only by Canada, Japan, and the United Kingdom), Mexico is the United States' third most important trading partner.

Prior to the 1982 devaluations, U.S. exports to Mexico were either high-technology products not manufactured in Mexico or agricultural products which Mexico was unable to produce in sufficient quantities to feed its population. Following the devaluations and after riding the crest of
Mexico's oil boom, many Mexicans were shocked at the extent of their dependence on imported products. In order to alter this dependence, the Mexican government initiated a plan to simultaneously increase domestic production of certain products and reduce the number of imports.

U.S. exports to Mexico provide considerable income and employment in this country; many border jobs depend either directly or indirectly on trade between the U.S. and Mexico. Therefore, Mexico's import substitution program will have a long-term impact on Texas manufacturers and exporters. The only sector which is likely to not only remain open to U.S. products, but actually expand, is agricultural exportation. Due to severe shortages of many food items in Mexico, it appears that agricultural exports, especially grain products, will continue to increase.

U.S. imports, primarily petroleum products, from Mexico increased by 12.5 percent from 1981 to 1982. (Non-petroleum imports for the first nine months of 1982 showed an increase of 17.6 percent.) However, considering that the peso devaluation accounted for a price "reduction" of eighty-three percent during 1982, non-petroleum imports actually failed to show any increase in volume.

While communities all over Texas were affected by Mexico's economic problems, the Texas border communities and their economies were, and still are, more closely connected to and interdependent with the economy of Mexico. As has been demonstrated, the Mexican peso devaluations devastated not only the Mexican economy but that of the Texas border cities as well.
FEDERAL ACTIVITY

While many of the activities aimed at alleviating the effects of the peso devaluation in the border region have been undertaken at the state and local levels, several federal initiatives should be mentioned here. (This should not be construed to be an exhaustive listing.)

Southwest Border Action Group

The Reagan Administration created the Southwest Border Action Group in 1983. The goal of the Group is to stimulate the depressed border region by speeding up the allocation of various types of existing federal grants and loans. Vice-President George Bush heads the project which, according to his aides, does "not do anything that wouldn't normally be done -- it's just expedited."

Some of the funds expedited by the Southwest Border Action Group have caused a great deal of controversy, due to the fact that 1) they represent no new funds to the area anyway, and 2) they may or may not actually stimulate the "border" economy. For example, a $95 million grant awarded to a drilling firm in Brownsville, Texas, was used to build rigs in Singapore and France. However, in spite of its detractors, the Group has funneled monies to border areas in the form of small business loans, public housing subsidies, and other habitat improvement.

Small Business Administration

In addition to distributing the afore-mentioned loans, the Small Business Administration has recently published regulations for distributing up to $300 million in federal funds for FY84, 85, and 86 for loans to areas crippled by the Mexican peso devaluations. In order to receive the $100,000 loans with interest rates set at 8%, a business must be located
in a Currency Devaluation Impact area as certified by the state governor and must also be able to prove that it cannot borrow the money elsewhere.

Department of Housing and Urban Development

According to some Texas state officials, the federal position on economic assistance to the border area was exemplified by the remarks of Robert Duckworth, a special assistant for community planning and development at HUD. Duckworth said that while the federal government could provide "technical assistance" and "be supportive", it could not determine which programs were needed to alleviate the cities' problems. "In the long run, if these [border] communities are to develop, the communities themselves have to come up with programs," Duckworth said.

While HUD has continued funding for some housing assistance programs, many of its programs which could have contributed to bolstering the border's economy were terminated by the federal government.

The Department of Commerce

The Commerce Department has several programs aimed at specifically stimulating the economy of the Texas border region and the U.S. economy in general. Two divisions of the Commerce Department are primarily responsible for administering these programs: the U.S. and Foreign Commercial Service and the International Trade Administration. The U.S. and Foreign Commercial Service (US&FCS) is the only government organization involved in international trade with a worldwide field presence and delivery system. With record trade deficits contributing to unemployment, suppressing economic growth and activity, and feeding the fires of protectionism, one remedy to the United States' economic problems was
obvious--increase the successful exportation of U.S. goods, especially from small to medium-sized businesses that were new to exporting. The main objectives of the US&FCS are

1) to increase the base number of U.S. firms involved in exporting by broadening national awareness of the importance of international trade,

2) to develop the US&FCS into a "customer driven" service company always conscious of the needs of the business community,

3) to develop through the US&FCS's Office of Export Promotion Services an effective line of products and services which will improve U.S. business' ability to compete in the world marketplace, and

4) to implement the objectives of the Caribbean Basin Initiative.

In order to meet these objectives, the US&FCS conducted over 5,000 international trade seminars across the United States in 1983 in which over 200,000 business people participated. (Eighty-six percent of those attending represented companies with less than 250 employees.) The US&FCS for a nominal fee, provides U.S. businesses with extensive data and statistics which facilitates entry into the export and international trade process. Some of these available data services include Export Statistics Profiles, Foreign Trade Listings, International Market Research Surveys, Agent Distributer Services, Trade Opportunities Program Notice Service, and Customized Export Mailing Lists.

The Commerce Department also administers another program of particular interest to states contemplating export promotion activities: SAFE, the State Agenda for Exporting. SAFE, a vehicle for creating state export
finance mechanisms, has four parts:

1) The designation of a constitutional officer to head state export development efforts. This high-ranking elected official could generate media coverage and serve as state dignitary for visiting foreign nationals.

2) The creation of a state export council composed of representatives from the private export community. This council would review the state's international development policies and make recommendations to the State Legislature.

3) The development of a state export finance mechanism which complies with U.S. international treaty obligations, provides a new capital source, provides pre/post export guarantee and insurance programs, provides sufficient protection for the State and potential bond buyers, and contains provisions for availing itself of federal programs, as desired.

4) The creation of an Honorary Commercial Attache program which recruits foreign nationals and other alumni of state universities who are employed overseas to serve as State Honorary Commercial Attaches.

Several states currently have some form of state export financing program in operation; the most notable of these programs are located in Illinois, Indiana, Louisiana, Minnesota, Washington, and Tennessee. First Washington Associates, in a report prepared for the Commerce Department, estimated that about twenty states (including Texas) could benefit from SAFE activity. Further information about this report and SAFE can be obtained from the Commerce Department's International Trade Administration.

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MEXICAN ACTIVITY

While many U.S. efforts at the local, state, and national levels are geared to increasing cooperation and interaction between the United States and Mexico, the Mexican government has announced its intention to decrease the Mexican border's dependence on the U.S. Details of the Mexican development plan are sketchy, but Guillermo Calderon, Chief of Border Affairs for Mexico's Commerce Department, has indicated that it will attempt to integrate Mexico's northern border with the rest of the country by improving transportation links with the north, diversifying the border area's economy, and improving supplies of Mexican-manufactured products and consumer items at less expensive prices than U.S.-manufactured products. The Mexican government also plans to improve housing and health along their northern border.

STATE OF TEXAS ACTIVITY

The Governor's Office of Economic Development was established primarily to expedite the allocation of federal funds and loans to the border area and other depressed areas of the State. It also facilitates contacts between interested parties by making referrals from the private sector to the appropriate agency or local organization. The Office has taken several steps to aid the border economy (some of these programs will be discussed in detail under the appropriate agency heading):

1) Small Business Revitalization—This program provides guidance for existing small businesses that wish to expand or diversify. The Governor's Office offers business and technical assistance to these businesses so that they may successfully apply for local
financial assistance. The Governor's Office has targeted South Texas due to the need for employment opportunities there, but the program is open to businesses in other areas of Texas. In "distressed cities" (those located in areas of high unemployment), the Office will consider offering start-up information.

The Governor's Office also assists in

2) Tourist promotion in conjunction with the Texas Tourist Development Agency.

3) Export promotion in conjunction with the U.S. Commerce Department, particularly in regard to new to market/new to export firms. Also coordinates this activity with local chambers of commerce and councils of government.

4) International trade promotion in conjunction with councils of government and the Texas Economic Development Commission.

5) Convention promotion to out-of-state trade associations for border cities. Some promos are done in conjunction with border chambers.

6) Industrial site promotion in conjunction with local mayors and chambers of commerce.

The Texas Economic Development Commission

The Texas Economic Development Commission (TEDC) was established to promote the development of Texas businesses, industry, and commerce from within and outside the State. In order to accomplish its mandate, the TEDC administers a series of programs; several of these have special applications for the Texas border area. The Commission has been especially active assisting in the issuance of tax-exempt industrial revenue bonds and rural business
loans, business development for small and minority businesses, and the development of international trade.

Past efforts of the TEDC have led to an active international trade division which has sponsored Texas trade missions, international trade fairs (often in conjunction with the U.S. Commerce Department), import-export information seminars, and INTOP (International Trade-Texas Outreach Program) computer assistance. In addition, the TEDC maintains a State of Texas office in Mexico City which is available for use by other state agencies. Texas is the only state which has a state office located in Mexico.

The Texas Tourist Development Agency

The Texas Tourist Development Agency, at the request of the Governor's Office, is performing a limited repeat of a tourist promotion program originally initiated in FY83 at a cost of $92,000. Funding for FY84 was $25,000. The program consists of three basic promos:

1) The Agency (TTDA) developed a "Break for the Border" public service advertisement which was sent to all television and radio stations in Texas; the campaign was geared toward promoting in-state tourism.

2) TTDA, in conjunction with American Airlines, promoted out-of-state tourism to Texas and the border area by assisting at American Airlines' Product Fair.

3) TTDA also reissued pamphlets to travel agents detailing special border "packages" or tours. These packages, offered in conjunction with Southwest Airlines, American Airlines, and other carriers, by necessity, focused on cities served by these carriers.
The Texas Department of Agriculture

The Texas Department of Agriculture has initiated an aggressive campaign to export Texas agricultural products to the world. In order to increase the effectiveness of their export promotion program, the Department has hired international marketing specialists who have in-depth knowledge of the cultures, languages, and marketing practices of the areas in which they serve. Apparently the International Marketing Division's efforts have paid off: Texas farm exports last year totaled $2.8 billion.
COOPERATIVE EFFORTS

Foreign Trade Zones

The Foreign Trade Zone Act of 1934 created the Foreign Trade Zone Board within the Department of Commerce. The Board regulates the establishment and operation of Foreign Trade Zones (FTZs) in the United States.

An FTZ is an area where imported goods, such as raw materials or manufactured items, may be held duty-free until they are shipped to their final destination. Upon leaving the FTZ, custom duties and quotas would be imposed. Currently, several cities in Texas have been approved as foreign trade zones, including San Antonio, McAllen, and Dallas. McAllen is the most successful foreign trade zone in the United States: it is rated as number one in trade volume out of sixty operational zones in the nation. In their FTZ, goods may be imported, stored, assembled, displayed for sale, labeled, altered or re-exported from the United States without the payment of U.S. customs duties. Only when an item leaves the zone for sale in the United States is it subject to U.S. Customs inspection and duties.

As can be seen, foreign trade zones are advantageous to the businesses located within them; however, they are also advantageous to the port of entry community in several ways. For example, they contribute to income and employment growth by encouraging foreign commerce and investment. In addition, each FTZ is useful to its area's economy according to the area's unique characteristics and environment.
Enterprise Zones

For clarification, an "Enterprise Zone" refers to any high-poverty area which is exempted by government from the usual collection of taxes and regulations. The idea behind the program is to stimulate the creation of new businesses and this, in theory, would lead to jobs in communities where little or no business activity presently exists.

The concept of enterprise zones originated in England, and the first enterprise zone program was passed by the British Parliament in 1980. A 1980 Princeton University study found that increases in money for urban renewal efforts would not revive inner cities in the U.S. This study also found that government taxes and regulations thwart economic growth and initiative in depressed areas.

In early 1980, U.S. Congressmen Jack Kemp and Robert Garcia sponsored the Urban Jobs and Enterprise Zone Act, the first enterprise zone legislation introduced in the United States. This legislation, if passed, would have allowed cities to designate areas of very high unemployment and poverty as enterprise zones with the Federal government providing major tax incentives for job creation and small business growth.

Presently, hundreds of communities are offering incentives for businesses to help revitalize depressed areas, even without federal motivation. As of July, 1984, twenty-three states have enacted enterprise zone laws. Five additional states are considering enactment of enterprise zone laws, and at least two are likely to pass bills very soon. Some of the states which have adopted some form of enterprise zone legislation include Illinois, Louisiana, Minnesota, Virginia, and Oklahoma.
Some of the advantages cited by proponents of enterprise zone measures follow:

1) Enterprise zones utilize private sector investments instead of public aid for revitalization of communities.
2) Residents and workers can both get tax credits within the zone.
3) Money saved from tax credits could be re-invested in the zone.
4) Zones have helped neighboring areas by creating generally strong economic activity.
5) Zones can double as foreign trade zones for extra business expansion.
6) Most importantly, new jobs have been created.

However, opponents of enterprise zone legislation have argued the following:

1) Businesses can "invade" zones and take advantage of the tax breaks even though they do not need them.
2) Reducing taxes in one area means increasing taxes in another.
3) Labor unions argue that their wage bases could be eroded if lower wage incentives are incorporated.
4) Some companies employ few workers or demand highly technical skills that local residents may not possess.
PRIVATE SECTOR INITIATIVES

Activities to reduce the effects of the peso devaluation have been widespread throughout the state. While the public sector has been involved in several activities, the private sector has not been idle, but has taken some innovative initiatives to stabilize and expand their economies.

Chambers of Commerce

Basically, a chamber of commerce looks into a city's assets and tries to develop them as much as possible. The chambers of commerce along the Texas border have had their work cut out for them, but they have been industrious in their efforts. Without much assistance from the federal government, the cities along the U.S.-Mexico border have had to cope with the devaluation and its accompanying problems; many have had to diversify their economy from their previous dependence on Mexican trade. One of the ideas widely advocated and accepted in the border region has been the Twin Plant concept, whereby American firms operate Mexican subsidiaries in border towns and their Mexican counterpart.

Some cities tried to concentrate their efforts on attracting tourists from the northern regions of the United States to spur economic activity. Also, the Minority Business Development Agency and Trade Association was originated to assist small businesses along the border by disseminating information on new technological developments and other ideas to help new entrepreneurs.

Councils of Governments (COGs) and Community Development Corporations (CDCs)

COGs and CDCs have developed many types of programs to alleviate the impacts of the faltering Mexican economy on the border. Public works projects,
job training, and business development and international trade development programs are a few of the activities with which they have been involved. The COGs and CDCs have also been aiding some cities in the application for federal grants, government contracts, and loan programs. Cooperative efforts between COGs, CDCs, and chambers of commerce in conjunction with public sector entities have contributed ideas and financing for economic stabilization.
CONCLUSION

Activity to alleviate the effects of the Mexican peso devaluations on the border region has been undertaken by many sectors of both government and business. According to some U.S.-Mexico border observers, the worse may be over.

At one of the Subcommittee's hearings, Barbara Chaney, member of the TEDC, stated, "If we can keep inflation down and the peso sliding at a nominal rate, we can make it back." Dr. Sidney Weintraub, Dean Rusk Professor at the LBJ School of Public Affairs, echoed her sentiments by saying that the U.S. economy is critical to the Mexican economy. "The federal government should get inflation and interest rates down--the real rates are higher now--that would benefit Mexico's economy the most." Due to the Texas border's interdependence with Mexico, this would also benefit its economy.

Other witnesses at the Subcommittee's hearings indicated that while there was no "quick fix" for the border's economic problems, one of the possible solutions was to diversify the region's economic base by increasing international trade, not only with Mexico, but with other countries.

In order to increase international trade with Mexico, one witness, Donald Baerresen of Laredo State University, suggested that a preferential trade relationship should exist between the U.S. and Mexico, similar to the one between the U.S. and Canada. Dr. Fatemi of Laredo State agreed, "The border relies heavily on trade between the two countries, so trade is the best choice [for alleviating the area's economic problems]. If it is preferential, then commercial investment will follow."
According to Mexican sources, previous attempts by Mexican businessmen to achieve an open U.S. market have been rebuffed. U.S. officials blame Mexican subsidization of certain products as the reason for holdups in not only preferential agreements, but any type of bilateral trade arrangement.

U.S. Senator Lloyd Bentsen and several congressmen have been working to provide assistance for international trade development along the Texas-Mexico border and to expand funding for business and community loans. Another proposal by Bentsen is the reauthorization of the Economic Development Administration (presently targeted for elimination by the Reagan Administration) which would provide, for areas suffering from severe natural disasters and foreign currency devaluations, funds for job-creating federal programs. Other legislative proposals include expanding eligibility for enterprise zones to border communities and reauthorizing the Farmers Home Administration loans for business and industry development.

U.S. Congressman Ron Coleman, in addition to supporting these proposals, has begun a dialogue with Mexico to determine how the two countries can cooperate to the advantage of both.

In conclusion, while it is obvious that much has been done to ease the effects of the peso devaluations, there will be no simple remedy or cure. However, through a combination of various programs at all levels of government and private sector initiatives, the Border is on the road to recovery.
RECOMMENDATIONS

After reviewing public testimony from its hearings and all available research literature, the Committee on State, Federal, and International Relations makes the following recommendations.

With the appointment of its new executive director, the Texas Economic Development Commission plans to downplay its foreign trade promotion. This Committee, however, feels that the TEDC, as the State's international trade branch, should be encouraged to continue its emphasis on promoting job-creating international sales and attracting job-creating foreign industry to the State. The Committee also recommends that trade activity should be expanded to include areas not previously frequented by Texas manufacturers. Further, since eighty percent of U.S. exports are generated by only one percent of U.S. business, it appears that much could be done to promote exports in Texas, either through some sort of SAFE activity or through the Export Trading Company concept whereby companies are given limited anti-trust immunity.

The Committee recommends that the State Legislature consider funding the attached intern demonstration project which could prove beneficial not only to the interns and communities involved, but to the State as a whole. (See Appendix A.) Likewise, consideration should be given to expanding international trade education facilities, such as the International Trade Institute at Laredo State University.

The Committee further recommends that Congress reinstate the Small Business Administration's non-physical disaster loan program which was eliminated by the passage of the 1981 federal budget. Congress should also give
consideration to passage of federal enterprise zone legislation with the
requirement that at least twenty percent of these zones be located in
areas adversely affected by the peso devaluation.

Finally, if another State of Texas office is contemplated, the Committee
requests that due consideration should be given to locating it in either
Tokyo, Japan, or Singapore, Republic of Singapore, or another commercial
city in the Far East.
APPENDIX A
AN OUTLINE FOR A PROPOSAL FOR A DEMONSTRATION PROJECT TO PROMOTE ECONOMIC DEVELOPMENT IN TEXAS' BORDERLANDS COMMUNITIES

Introduction

The purpose of the proposed two year demonstration project is to provide technical assistance to communities in the Texas border region through a cooperative TEDC/university program utilizing MBA student interns. The program is designed to mitigate the serious economic dislocation in Texas' borderlands communities caused by the current Mexican economic crisis. Retail sales of many businesses declined by 75 to 90 percent after July, 1982, while unemployment in several border communities reached 25 percent of the labor force. Although economic conditions have improved slightly in recent months, Texas border communities are still experiencing critical economic problems. These data point to the need to create a diversified economy which is less dependent upon Mexican trade. A prerequisite to economic diversification, however, is a need to develop a community awareness of the nature and extent of local economic problems and, then, to provide local residents with expertise in community development, attracting industry, small and minority business development, and in promoting international trade. It is the goal of this demonstration project to provide local communities with the technical assistance to develop diversified economic bases.

APPENDIX A
The Project

Year one -- During year one, 15 interns will be recruited for a two-year program leading to an MBA degree at two Texas universities. It is preferable that the interns attend the University of Texas at Austin or St. Edward's University in Austin. The first year of the program will be devoted to intern training and to developing plans for year two. Most of the first year of intern training will be provided by the university in normal classroom settings. However, the interns will receive some additional training from the Economic Development Commission (TEDC) staff in promotion of industrial location and expansion, provision of assistance to small and minority businesses, and international trade.

Year two -- During year two, the interns will reside in a Texas borderlands community and provide training to local residents in techniques in industrial location and expansion, and in promoting international trade. They will work closely with small and minority business; providing technical assistance to improve the management capabilities of the local small and minority businesses. In addition, local leaders will receive training in community organization and development methods. The interns will provide all services to their local communities which TEDC consultants normally provide. Each week
the interns will be brought together (probably at night) for a graduate seminar. The interns will be carefully supervised by a TEDC staff member who devotes full-time to intern consultation and training. In addition, each intern will write a thesis based upon his/her experiences.

The intern program will have several inherent advantages to current TEDC programs. The interns will reside in the communities, and, therefore, they will not be regarded as "outsiders," which will enable them to gain the confidence and support of local residents. Residence in the target communities will enable the interns to become familiar with local political power structures, informal information networks, and "key" individuals. Each intern will develop and/or alter services to meet the unique needs of local communities. In addition, the interns will focus their efforts on a single community; therefore, their efforts will not be spread "too thin."

At the end of the second year each of the 15 communities will have a cadre of individuals trained in community organization and development techniques, techniques for industrial location, and techniques to promote international trade. These individuals will then be able to initiate and carry out community development programs and to provide technical assistance to small and minority businesses within their local communities.
Because of budget constraints this cooperative TEDC/university intern program will be a viable means of providing more TEDC services to an economically distressed region of Texas. These services can be provided at a lower cost than that required by TEDC consultants. Further, since this is a demonstration project and since it focuses on a region with high unemployment, there is a dire need for project funding.

Benefits to Project Participants

Intern Benefits

1. The interns will receive a monthly stipend sufficient to sustain them for the two-year program, at which time they will be granted an MBA degree.
2. The interns will receive special training in industrial location, small/minority business development, and international trade.
3. The interns will receive hands-on experience working for a state agency in a local community development project.

Benefits to Communities

1. The experience of a resident expert for a year who provides technical assistance in industrial location, small/minority
business assistance, and international trade.

2. At the end of the project each community will possess a cadre of persons with experience in attracting industry, providing assistance to small and minority business, and in promoting international trade.

Benefits to TEDC

TEDC will be able to better carry out its mission of creating jobs by training a cadre of individuals with expertise in attracting industry, small/minority business development, and international trade promotion in a number of impoverished border communities. The delivery of these services can be provided at a lower cost than we are presently doing.

Benefits to the University

The university will benefit from having an additional 15 MBA students with specialized technical training to carry out the mission of the university.
COMMITTEE ON STATE, FEDERAL & INTERNATIONAL RELATIONS

Interim Report: Water Importation
The Committee on State, Federal, & International Relations was charged by the Speaker of the Texas House of Representatives, in cooperation with the House-Senate Joint Committee on Water Resources, to study the possibility of developing state water resources through the importation of water from bordering states and to explore riparian rights between those states and Texas.

BACKGROUND OF CHARGE

Water is an important natural resource to the State of Texas. With its ever increasing population and industrialization, Texas will become even more dependent on water in the next century.

In 1980, the population of Texas was 14.2 million; population projections of 21.2 million have been made for the year 2000. Of the total 17.9 million acre-feet of water used in the State in 1980, 15.8% (2.8 million acre-feet) was used for municipal and domestic use, 8.5% (1.5 million) for industrial uses, 72.5% (12.7 million) for agricultural use, and 3.1% (812 thousand) for mining and manufacturing uses. Projections of future water use, especially for domestic consumption, have indicated a need for a State Water Conservation Plan and the need to research other State options, such as water importation from other states.

There are several different state, federal, and local authorities that oversee water resources in the State. Implementation of water resource plans is coordinated through the federal government, represented by the U.S. Army Corps of Engineers, the U.S. Bureau of Reclamation, etc.; the state government, represented primarily by the Texas Department of Water
Resources; the local and regional governments, represented by numerous municipal/regional water districts; and private industry.

Financing for water projects has traditionally been handled at the federal level, but as federal financial assistance declines, the State and local governments, in conjunction with private interests, must assume a larger share of the financial burden.

RIPARIAN RIGHTS BETWEEN STATES

In order to understand the current status of riparian rights between states, it is necessary to digress somewhat. Historically, states have had laws and statutes prohibiting the diversion of water within one state into any other state. However, in May, 1966, a U.S. District court struck down a Texas law which banned out-of-state transfers (in this case to Oklahoma) as an "unconstitutional burden on interstate commerce." This decision was later upheld by the U.S. Supreme Court. The Supreme Court went on to say that state laws barring certain diversions were unconstitutional because they discriminated between in-state and out-of-state users which violated interstate commerce clauses. Therefore, many states now have provisions which allow the diversion or transfer of water if it is reciprocal.

Another case by the Supreme Court, Sporhase v. Nebraska, struck down a Nebraska law that restricted out-of-state transfers of groundwater. The Court said that an export ban was justified only if a state could show that the water was needed to maintain public health and safety.

These decisions have made it more difficult for states to keep both surface and ground water within their own boundaries.
There are basically three methods of dealing with water allocation problems between states: litigation, legislative action, and interstate compacts. Perhaps the least effective, most expensive, and most time-consuming method is litigation. The following case demonstrates some of the unpleasant aspects of legal action.

El Paso/New Mexico Suit

The City of El Paso, situated across the state border of New Mexico, has predicted that without new sources of water, the City will experience water shortages by 1995. While it concedes that it could meet its water needs for the next 50 years by conservation, recycling sewage, and using more Rio Grande water, it stresses that these measures would merely be stop-gap measures. Also, each of these methods would be prohibitive in cost and require additional equipment and/or regulations. For example, if health regulations were altered to allow the use of recycled sewage water, the cost would still be prohibitive since it would cost approximately twice what New Mexico water would cost.

In 1980, the City of El Paso's Public Service Board sued the State of New Mexico over its law restricting the exportation of groundwater across state boundaries. On January 17, 1983, U.S. District Judge Howard Bratton of Albuquerque, New Mexico, agreed with El Paso and declared that the ban violated ICC regulations. In response to this ruling, the State of New Mexico passed a law prohibiting the state engineer from issuing well permits for out-of-state use unless it is concluded that the proposed permits are "not contrary to the conservation of water within the state" or that the issuance of permits would not be detrimental to New Mexicans.
On the basis of this new legislation and Congress' recognition that water may be treated as a public resource, New Mexico appealed the previous ruling. The 10th Circuit Court of Appeals in Denver vacated Bratton's ruling, returning it to him for reconsideration in light of the new statute. Judge Bratton was supposed to issue his new opinion on April 24, 1984, but postponed his decision in order to request additional information from the parties involved in the dispute. So, four years later, the outcome is still unclear and regardless of the outcome of the ruling by Judge Bratton, the case is sure to be appealed all the way to the U.S. Supreme Court.

**Interstate Stream Compacts**

Apportionment of water resources from streams, lakes, and rivers that flow along or across the State's boundaries are made according to interstate compacts which have been ratified by all of the states involved and by Congress.

Recently, there has been a move among states to initiate dialogues on water disputes and problems. Some of these interstate dialogues have indicated the desirability of forming a national water forum which would provide much needed technical expertise in developing new compacts while also offering the services of an arbitration-type organization to resolve potential and actual water conflicts. Such an organization could be expanded to handle other water issues.

**WATER IMPORTATION**

Water importation has been at the base of major Texas water plan proposals since the mid-1960's, and is now discussed as the ultimate solution to the
High Plains Region water problem. The current water plan under which Texas operates was developed in 1968. The plan emphasizes the need for imported water in its introduction: "Since Texas does not have enough water within its boundaries to meet all its needs beyond 1985 it will be necessary to seek supplementary water from outside its borders." In 1969, Texans voted on the concept, but they refused a $3.5 billion bond proposal for water importing canals. Another water package was defeated in 1982. Today, logistical and financial problems continue to prevent the implementation of any sort of water importation projects.

Logistical Problems
A study was done by the U.S. Army Corps of Engineers regarding the feasibility of water transfer or water importation. The study, The Six State High Plains Ogallala Aquifer Study, explores in detail possible routes to get water to the High Plains region. (See Figure 1 on next page.) Of the routes considered, two would bring water from Arkansas to West Texas or from East Texas to West Texas. (See Figure 2.)

Financial Costs
The cost estimates for building the canals, reservoirs, pumping facilities, etc. are quite high. The study estimates that the cost for the delivery of 1,550 million acre-feet would be $5.3 billion and for the delivery of 7,510 million acre-feet would be $27.8 billion. However, other analysis of the data has provided different and higher figures.

One water analyst gives a figure of at least $50 billion to get water to the Texas High Plains. One breakdown details costs for the importation route of Arkansas to Lubbock. This route would entail 800 miles of con-
Figure 1: MANAGEMENT STRATEGY FIVE (MS-5)—INTERSTATE WATER TRANSFER ROUTE ALTERNATIVES ASSESSED BY THE CORPS OF ENGINEERS

Source: Adapted from Figure 5, Review Draft, Water Transfer Elements of High Plains-Ogallala Aquifer Study, January 1982, U.S. Army Corps of Engineers
STATE OF TEXAS
PROJECTION OF WATER DEMAND AND SOURCE OF SUPPLY

TOTAL WATER USE

PROJECTED REQUIREMENTS

- Shortages or Imported Water
- Surface Water From New Reservoirs
- Surface Water From Existing Reservoirs
- Ground Water

MILLIONS OF ACRE FEET PER YEAR


1 Half is unusable until conveyance pipelines and canals, and treatment and storage facilities are built.
2 Requires reservoir construction as well as construction of conveyance, treatment and storage facilities.
3 Some areas of Texas will be short of water in the immediate future, and until surface water supplies can be obtained.
4 Assuming no increase in irrigation use of water.

SOURCE: Texas Department of Water Resources.
crete lined canals with seven storage reservoirs of about 700 square miles and thirty pumping facilities to get the water up the increased elevation of 2,700 feet from East to West which would cost approximately $30 billion; approximately ten power plants to provide electricity for the pumping stations which would cost $6-7 billion; and then at least $16 billion for a distribution system. Therefore, a fifty billion dollar investment would be necessary. In addition, there would be an annual operating cost of $5-6 billion.

CONCLUSION
Currently, farmers pay as little as $5 per acre-foot of water or simply the cost of drilling and operating their own well. With the adoption of a water importation plan, this water would cost between $430 and $569 an acre-foot which would imply a total cost of $5.5 billion to $7.2 billion to irrigators for the water itself (which does not include the cost of the plan) at the 1980 level of 12.7 million acre-feet of water per year. Even at a lesser cost of $300 per acre-foot, the water would still be prohibitively expensive for irrigation. If the water importation scheme were implemented, water demand is projected to fall to 300,000 acre-feet per year for irrigators. The purpose of water importation is to supply farmers with water for irrigation, yet without continuing high government subsidization, farmers could simply not afford the water.
COMMITTEE NOTE: On August 3, 1984, Judge Bratton ruled that New Mexican laws prohibiting groundwater exportation were unconstitutional and that criteria used in the evaluation of applications for drilling new wells created "an unconstitutional burden on interstate commerce."
Yeah, those people who moved to the Southwest will be back when they realize the Great Lakes have all the water.

...probably be here any time now...

...just a little something they forgot to pack...
COMMITTEE ON STATE, FEDERAL & INTERNATIONAL RELATIONS

Interim Report: Immigration Reform Act
The Speaker of the Texas House of Representatives, Gib Lewis, charged the Committee on State, Federal, and International Relations to study the effects of the proposed Simpson-Mazzoli Act on the Texas border area and its economy. The Chairman of the Committee, Froy Salinas, appointed a subcommittee to study this charge; the subcommittee was composed of the following members: Representatives Joe Gamez, San Antonio; Charles Gandy, Mesquite; Anita Hill, Garland; Vice-Chair Patricia Hill, Dallas; and Chairman Salinas of Lubbock.

The subcommittee held two hearings:

March 8, 1984 -- Laredo, Texas
March 9, 1984 -- McAllen, Texas

Committee Note: Due to unresolved federal Congressional activity, no recommendations are proposed by this Committee. The following is a factual synopsis of the situation existing as of September 15, 1984, the date of this report. In addition, this report addresses primarily immigration from Mexico and Central America along the southern border of the United States and makes no attempt to deal with illegal immigration from other areas of the world. Immigrants from these other areas tend to have a totally different impact on Texas and are out of the scope of this report.

BACKGROUND

Immigration, both legal and illegal, has been an important part of Texas politics and economics for many years. People emigrate for basically two reasons: 1) they want to get away from unpleasant situations in their
home countries, like unemployment or war, or 2) they are attracted to the United States by greater opportunities, like jobs. Today, estimates of the number of illegal immigrants in the U.S. range from two to twelve million. Due to the nature of being "illegal", the actual number is impossible to determine. While undocumented workers from Mexico make up about sixty percent of the total undocumented immigrants in the U.S., they comprise ninety percent of those apprehended by the U.S. Immigration and Naturalization Service (INS).

Support for tighter border controls has grown since the decrease in economic opportunities for U.S. citizens and the increase in the number of undocumented immigrants. Currently, Congress is working on legislation to reform and improve U.S. immigration laws and policies. The ideal goals of controlled immigration are: 1) to admit only a limited number of permanent immigrants, 2) to use immigrants to overcome labor shortages, 3) to help reunite families, and 4) to distribute the number of openings for legal immigrants among countries and, within countries, among individuals as fairly and as equitably as possible. In order to address some of these goals, Congress is trying to pass the Immigration Reform and Control Act, known as the Simpson-Mazzoli Bill after its two sponsors.

THE SIMPSON-MAZZOLI BILL

The Simpson-Mazzoli bill has not had an easy time. Although it was first introduced in 1982, because of problems and controversies in Congress, the bill has not yet gone to the President. The Senate passed the Simpson-Mazzoli bill in 1982 and again in 1983; however, now due to numerous House amendments placed on the bill when finally passed by that chamber in June,
1984, the Simpson-Mazzoli bill is in conference committee. There is much speculation that the bill will not pass before the end of this Congressional Session.

The basic structure of the Simpson-Mazzoli bill is essentially the same in both the House and Senate versions. However, many amendments greatly altered the House version. Both versions of the bill attempt to reconcile and provide for the same basic elements of immigration laws: employer sanctions, amnesty, legal immigration, temporary foreign workers, border enforcement, a reimbursement procedure, asylum and adjudication, etc. Although the bills contain the same elements, the two differ in many important respects.

**Employer Sanctions**

The Senate version which passed in 1983 contains stiffer civil penalties for employers who knowingly hire undocumented workers. There are criminal penalties for employers with a "pattern of practice" of hiring undocumented immigrants as well as civil penalties. The House version, on the other hand, contains no criminal penalties, only civil fines. Both versions require employers of four or more employees to examine documents establishing work eligibility and identity of individual applying. A U.S. passport or some combination of approved documents would work. In addition, the House version provides for a telephone verification system which the Senate version does not have.

**Amnesty**

The Senate version is a two level system, where legal status is given to most undocumented immigrants who have lived in the U.S. since December 31,
1979, by making them immediately eligible for temporary resident status. To be eligible for permanent resident status, one must have been in the country since January 1, 1977. The current law whereby one must be a permanent resident for five years before applying for U.S. citizenship is maintained.

The House version gives persons here since January 1, 1982, the eligibility to apply for temporary resident status and, after 13 months, persons may be eligible to apply for permanent resident status if the person has no criminal record and has a minimal understanding of English, U.S. history and government. If, after two years as a temporary resident, the person does not apply or qualify for permanent resident status, the person must leave the country. The House version also maintains the current law concerning application for U.S. citizenship.

**Legal Immigration**

The Senate version reforms legal immigration by altering numbers and categories; however, the House bill contains no comparable section.

**Guest Workers**

Although the Senate version of Simpson-Mazzoli does not contain a new guest worker (or H-2) program, the current requirements were eased to make bringing in foreign workers for temporary labor shortages easier. The House did create a new guest worker program. The program allows growers of perishable crops to bring in workers for up to eleven months at a time and the worker can move from employer to employer during this time period.

**Border Enforcement**

Both versions of Simpson-Mazzoli consider funding increases for border
enforcement; however, only the House bill is specific about the amount of funding and personnel increases to be given to the INS.

Reimbursement to State and Local Governments

Both versions handle cost allocation differently. The House version places the whole burden on the federal government. It authorizes state and local governments 100 percent reimbursement for costs of social and educational benefits for those persons legalized by the bill; however, the total amount will be subject to the appropriations process. The Senate version uses block grants to help state and local governments bear the burden of health and/or cash assistance, yet this does not imply total reimbursement. The Senate did not provide for any type of educational grant.

IMPACT OF ILLEGAL IMMIGRATION ON TEXAS

In order to see what impact the immigration reform bill would have on Texas in general, and more specifically on the areas in Texas with a large concentration of undocumented immigrants, it is necessary to analyze what impact illegal immigrants themselves have on the Texas border cities and their economies. Some topics to consider will be how and if illegal immigrants hurt Texas economies, labor markets, and social services, or increase tax burdens. In other words, the real question is do illegal immigrants take more away from Texas, economically speaking, than they give. Many studies have been done on this subject with fairly consistent results and only one major exception.

Use of Public Services

In a study prepared for the Governor's Budget and Planning Office by the Lyndon B. Johnson School of Public Affairs, it was determined that most
undocumented immigrants pay for themselves and thus do not drain public coffers. The study, directed by Dr. Sidney Weintraub of the LBJ School and Dr. Gilbert Cardenas of the Department of Sociology at UT-Austin, is entitled The Use of Public Services by Undocumented Aliens in Texas. The study focuses on health, social services, education, and criminal justice services provided by state and local governments.

According to the LBJ School study, in FY 82, undocumented immigrants in Texas paid at least $30 million more than the cost of the services that they received. The problem in Texas lies in the distribution of tax money. Cities carry most of the cost of social services for undocumented workers while the federal government, and to a lesser extent the state government, actually profits from them. So, although the state received a revenue gain in fiscal 1982, six urban areas (Austin, Dallas, Houston, San Antonio, El Paso, and the Rio Grande Valley) analyzed by the study were found as a whole to lose money for services to undocumented workers. In the study's comparison, which was "biased," meaning the researchers used the highest possible cost of services and the lowest possible amount of revenue undocumented workers provide, it was found the local governments provided $35 million in services but collected only $5 million in revenue from them. In the same "biased" comparison, it was found that the state as a whole spent $132 million on public services for undocumented workers but received in return at least $162 million in revenue from them.

Education was found to be the most costly service to undocumented workers at both the state and local levels but most paid for their own health services. The six urban areas spent $29 million of their total $35 million on education and the state $93 million of $97 million. (On
Appendix D, pay particular note to the figures for Brownsville.

In health services, the six areas spent $4.9 million and the state $176,705. The study confirms what other analyses have also found: undocumented workers pay income tax, social security, and other taxes, yet for various reasons do not use, to any great degree, the services for which their taxes have paid. In fact, studies conducted by Jorge Bustamante of the Colegio de Mexico and the U.S. Department of Labor in the late 70s, found specifically that while taxes and Social Security were withheld from paychecks of about 75 percent of undocumented workers, only 1.5 percent of all such individuals received food stamps, 4 percent got unemployment compensation, and only 4.5 percent had ever used public health services. In addition, undocumented workers subsidize the U.S. economy by the payment of sales taxes. (The average undocumented worker spends 80% of their income in the U.S. and only returns 20% to Mexico.) Dr. Gilberto Cardenas, Professor of Economics at Pan American University, sums up, "They are not on welfare or receiving food stamps. In the last five years, you've seen those programs crack down. They [undocumented workers] complain little in terms of wages and working conditions and they make a fairly reliable work force, so in fact, undocumented workers are putting more into the American system than they are getting out of it."

Labor Market Impact

A major fear today is that immigrants cause native unemployment. According to most recent studies, this fear is unfounded. The Urban Institute of Washington, D.C., finished a study recently which considers the effects of illegal immigration to the U.S. The author of the study, Tom Muller, concludes that most Mexican immigrants take jobs that pay low wages and/
or require little education or language skills and do not compete with most other workers seeking jobs. He also states that undocumented workers have increased the competitiveness of industry and light manufacturing, thereby increasing the total number of jobs. Undocumented workers have the reverse effect of displacement; they create jobs. Muller also states that immigrants are more likely to start new businesses which also expand job opportunities in the U.S. Julian Simon, a leading demographic economist and a fellow at the Heritage Foundation, agrees. He says that the value of immigrants is that they "represent people as people and lead to faster economic growth by increasing the size of the market and hence boosting productivity and investment." Both Muller and Simon also concluded that undocumented workers do not use to any great extent and, indeed shy away from, social services and other human service programs.

Dr. Donald Huddle, an economics professor at Rice University and a member of Governor White's Task Force on Immigration, did a controversial study. In it, he claims that illegal immigrants currently cost the American public $25 billion per year; this analysis is based on his assessment of the cost of unemployment compensation and social services paid to U.S. citizens displaced by undocumented workers and loss of tax revenue because of underpayment of taxes by these undocumented workers. Huddle estimates that "for every 100 illegal aliens currently working in the U.S., 65 U.S. workers lose their jobs," and that there are 5.5 million undocumented workers currently working in the U.S. displacing a total of 3.5 million U.S. citizens.

Critics of Huddle's study say the magnitude of displacement of U.S. workers
is greatly exaggerated and that the jobs taken by undocumented workers are low-paying, menial jobs which are usually shunned by U.S. citizens. Dr. Ricardo Romo of UT-Austin's Department of History theorizes that the displacement that does occur shifts U.S. workers to different and perhaps better kinds of jobs. He says when undocumented workers do take away menial jobs then U.S. Hispanics and blacks can and do take jobs which have more of a future. Dr. Romo says, "No one should assume that those who leave are worse off than if they stayed... In many cases, there is substantial improvement when people move on. The kids go to better schools than their parents; they get into skilled trades."

Huddle's research techniques have been widely criticized. His analysis stems from job displacement but most studies indicate positive benefits on the labor market from undocumented workers. According to a study by sociologist Dr. Estevan Flores in *The Houston Journal of International Law*, "The Impact of Undocumented Migration on the U.S. Labor Market," Huddle's study has serious methodological problems. Huddle used no sampling procedure and no reliable verification methods which has the effect of greatly distorting results. Flores argues the rationale behind immigration legislation is not negative economic impacts as some espouse, but rather the deteriorating state of the U.S. economy and changing demographic and socio-political factors. He asserts that negative impacts of the kind Huddle tried to show can only be determined by an intensive, thorough and methodologically sound case-by-case analysis on each particular region of the country. The analysis in Flores' study shows how the economy as a whole benefits from the productive work of immigrants who for the most part take jobs unattractive to the
domestic labor force and who in the long run create jobs. In addition, he points out how the U.S. benefits from taxes paid by illegal immigrants and how they do not receive the social benefits funded by their taxes. He concludes that the type of immigration reform under consideration would simply further discrimination of immigrants and many U.S. citizens and might further the exploitation of illegal immigrants.

IMPACT OF THE PROPOSED SIMPSON-MAZZOLI BILL ON TEXAS

The immigration reform bill will impact Texas greatly, but not as much as some have argued. The particular sections of the bill have different effects and, in addition, there are different versions of each section, implying even more uncertainty as to exactly what the legislation will do. The impact will also depend on the number of undocumented workers in this state, and since that number is impossible to determine, cost and various other impacts will be speculative.

Amnesty

Although it seems clear undocumented workers do not currently use public assistance programs, the question now arises whether, by granting amnesty, there will be a great change in public assistance use. Quite reasonably, it can be assumed the demand would increase somewhat since the fear of discovery would be erased. How much the demand would increase depends on the state of the United States and Texas economies; however, the demand should not be as high as for the general U.S. population. The reasoning behind this is based on the lower level of unemployment of undocumented workers which should continue due to their strong work habits. As stated
by Dr. Weintraub. Over time, there is no reason to expect that legalized aliens and their children should not contribute more to U.S. society than they receive from it which has been the general experience of immigrant groups."

Each version of the bill includes a provision prohibiting immigrants granted amnesty from being eligible for federally-funded public assistance. The Senate version of the provision extends three years and the House version extends five years. There are a few exceptions in the House version such as allowing schoolchildren to enroll in the school lunch program.

The scope of amnesty, though, does not go very far: INS has figured that approximately 33 percent of undocumented workers currently in the U.S. would be eligible for amnesty. Of those eligible, only a few would actually be applicants due to the costs involved (at least $200 per applicant) and the "red tape." Therefore, only one in every eight or nine eligible would become applicants, and, of those, only 40-65 percent would ever be naturalized as U.S. citizens, or about 10 percent. Citizenship can be denied for any number of reasons, including: mental retardation (a frequent accusation for those not fluent in English), drug and/or alcohol abuse, poor English literacy, persons with criminal convictions, persons who have used public assistance (and who might continue to remain on the public dole), smugglers, and any other "undesirables."

State Reimbursement

Due to the indefinite number of persons who would be granted amnesty, the
cost implications are quite difficult to estimate with any degree of accuracy. There has been concern about the cost of the Simpson-Mazzoli bill, and, in January, 1984, the Director of the U.S. Office of Management and Budget, David Stockman, said that the cost would be "unacceptable." He said, "Both the House and Senate bills have serious budget implications for 1984-89." He estimated a cost of $10.1 billion for the Senate version and $13.3 billion for the House version. He attributed most of the cost to social welfare benefits made available to immigrants granted legal status. However, since the number of persons affected is so indefinite, his estimates could be way off. The Congressional Budget Office has estimated the bill would cost $8-16 billion over five years. Other federal 4-year cost estimates have ranged from $1.5 to 5 billion.

While the House bill authorizes total reimbursement of the state and local costs associated with legalization, the Senate bill includes only a limited block-grant provision. Without the reimbursement provision, the state and localities are at risk for these costs. In Texas, without reimbursement, the major expenses would be the education of children legalized by the bill and for indigent health care of those legalized.

**Guest Workers**

The House version of the expanded "H-2" program provides for the issuance of permits for up to 500,000 foreign workers to come into this country to harvest perishable crops. The growers simply have to request the workers and can also ask for them by name, enabling growers to preclude workers who request the minimum wage or decent working conditions. The
current program has more safeguards protecting worker's rights, since there are no new mechanisms in Simpson-Mazzoli to protect the rights of guestworkers. Critics say that changing the guest worker program which currently permits a maximum of 20,000 foreigners to the House version will claim the jobs of thousands of Texans and Californians who work as migrant laborers. Now, growers and the U.S. Labor Department are required to look for domestic workers for 60 days and only after that effort can INS grant permits for foreign workers. The House program has been compared to the Bracero program which was dismantled by the Labor Department in 1964 after it was determined Mexican workers largely displaced domestic workers from farm jobs. As Governor White has stated, "We have an abundance of workers here in Texas that are able to handle the crops that are being harvested. I don't think we need guest workers in Texas."

Border Enforcement

If Simpson-Mazzoli passes, INS will be responsible for administration of amnesty provisions. The INS will have to write regulations, hire staff, and open new offices, all within six months after passage of the bill. Since the INS is a federal agency, it is doubtful the expansion will aid the Texas border economy by providing jobs. One of the increased border enforcement provisions allows "open field" searches for undocumented workers which has been greatly criticized by growers.

Employer Sanctions

The argument in favor of employer sanctions is that jobs are the reason illegal immigrants come to this country and, thus, if the jobs disappear
(or the opportunities) so will the reason to migrate. Several groups, including Hispanics and big business, object to employer sanctions for various reasons. The two major arguments against this provision are 1) employers, rather than taking the risk of accidentally hiring an undocumented worker, will choose not to hire Hispanics or other "foreign-looking" persons, and 2) forcing businesses to check credentials will be a costly regulatory burden. Under Simpson-Mazzoli, those entitled to work legally in the U.S. would have to carry some sort of identification in order to prove eligibility to work. Civil libertarians and others object to the idea of a national identity card as a serious infringement on individual rights and privacy. Since Texas has such a large minority population, this argument becomes even more valid.

**Conclusion**

Major controversy does not exist over the need for immigration reform. Yet proposed legislation, such as the Simpson-Mazzoli bill, continues to falter. Congressional supporters call the bill an enlightened piece of legislation, but opponents of the bill think some provisions of the bill are racist and regressive. It is certain that the bill will be costly, but how costly continues to be questionable.

Due to persisting disagreements and problems with Simpson-Mazzoli, other options should be considered. For example, the U.S. could increase the number of immigration visas from Mexico and other countries by doing away with country by country quotas. Then more people from Mexico could fill the unused slots from countries that consistently fail to satisfy their
quotas, like Sweden, another desirable option to immigration "reform" could be to enforce existing U.S. labor laws for the benefit of all workers, especially those laws concerning the minimum wage and safety regulations. Possibly this enforcement would remove the incentive for some employers to hire undocumented or "guest" workers, without the drawbacks of employer sanctions.

In conclusion, Simpson-Mazzoli has had many obstacles in getting to where it is now; without a doubt, it will have to overcome more before its finale.
Appendix A. Estimate of Undocumented Aliens in Texas

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>X/2</td>
<td>284,450</td>
<td>459,200</td>
</tr>
<tr>
<td>X</td>
<td>568,900</td>
<td>918,400</td>
</tr>
<tr>
<td>2X</td>
<td>1,137,800</td>
<td>1,836,800</td>
</tr>
</tbody>
</table>

Source: Bean and King, 1982. Their estimate range is $X$. 
APPENDIX B
Appendix B. Costs and Revenue Comparisons for Undocumented Aliens in the State of Texas (thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$49,536</td>
<td>$97,446</td>
</tr>
<tr>
<td>Revenue</td>
<td>171,446</td>
<td>276,773</td>
</tr>
</tbody>
</table>

Source: Bean and King, 1982. Appendix B based on X in Appendix A.
Appendix C. Costs and Revenues for Undocumented Aliens in Six Cities in Texas
(Thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$12,831</td>
<td>$35,434</td>
</tr>
<tr>
<td>Revenue</td>
<td>5,297</td>
<td>8,551</td>
</tr>
</tbody>
</table>

Source: Bean and King, 1982. Appendix C based on X in Appendix A.
APPENDIX D
Appendix D

Estimating Net Average Costs of Providing Education to Undocumented Alien Children, by Independent School District

Formula: 
\[
\text{Average cost per ADA} \times \text{estimated undocumented students} - \left( (\text{State aid per ADA} + \text{Federal aid per ADA}) \times \text{estimated undocumented students} \right)
\]

<table>
<thead>
<tr>
<th>School District</th>
<th>Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austin</td>
<td>((2,889 \times 245) - ((832 + 120.05) \times 245) = $474,552.75 \text{ (Net)})</td>
</tr>
<tr>
<td></td>
<td>(474,552.75/245 = $1,936.95 \text{ (Average Cost per Undocumented Student)})</td>
</tr>
<tr>
<td>San Antonio</td>
<td>((2,092 \times 886) - ((1,026 + 28.25) \times 886) = $919,446.50 \text{ (Net)})</td>
</tr>
<tr>
<td></td>
<td>(919,446.50/886 = $1,037.75 \text{ (Average Cost)})</td>
</tr>
<tr>
<td>El Paso</td>
<td>((1,867 \times 627) - ((1,007 + 256.67) \times 627) = $378,287.91 \text{ (Net)})</td>
</tr>
<tr>
<td></td>
<td>(378,287.91/627 = $603.33 \text{ (Average Cost)})</td>
</tr>
<tr>
<td>McAllen</td>
<td>((1,966.16 \times 1,100) - ((1,064 + 218.95) \times 1,100) = $751,531 \text{ (Net)})</td>
</tr>
<tr>
<td></td>
<td>(751,531/1,100 = $683.21 \text{ (Average Cost)})</td>
</tr>
<tr>
<td>Brownsville</td>
<td>((1,268.18 \times 1,166) - ((1,420 + 315.50) \times 1,166) = -$544,895.10 \text{ (Net)})</td>
</tr>
<tr>
<td></td>
<td>(-544,895.10/1,166 = -$467.31 \text{ (Average Cost)})</td>
</tr>
<tr>
<td>Houston</td>
<td>((2,691 \times 5,202) - ((716 + 93.58) \times 5,202) = $9,787,146.80 \text{ (Net)})</td>
</tr>
<tr>
<td></td>
<td>(9,787,146.80/5,202 = $1,881.42 \text{ (Average Cost)})</td>
</tr>
<tr>
<td>Dallas</td>
<td>((2,433 \times 1,515) - ((787 + 179.87) \times 1,515) = $2,221,186.90 \text{ (Net)})</td>
</tr>
<tr>
<td></td>
<td>(2,221,186.90/1,515 = $1,466.13 \text{ (Average Cost)})</td>
</tr>
</tbody>
</table>

Source: The Use of Public Services by Undocumented Aliens in Texas; Weintraub/Cardena

1The minus figures are correct.

With the exception of Dallas, all the other districts have total net costs of under $1,000,000 (with Brownsville registering a negative net total cost).
ACRONYMS

CDC  Community Development Corporation
     Council of Governments

COG  [Mexico's] Exclusive Economic Zone
     Export Trading Company

EEZ  [U.S.] Fishery Conservation Zone
     Foreign Trade Zone

ETC  [U.S.] Fishery Conservation Zone
     Foreign Trade Zone

GIFA  Governing International Fishery Agreement

H-2  Agricultural "guest worker" program
     Housing and Urban Development, U.S. Dept. of

HUD  Immigration and Naturalization Service, U.S.
     International Trade-Texas Outreach Program
     International Trade Administration, U.S. Commerce Dept.

INS  National Marine Fisheries Service

INTOP  State Agenda for Exporting
       Small Business Administration, U.S.

ITF  Southwest Border Action Group

NMFS  Texas Department of Agriculture
       Texas Economic Development Commission
       Texas Tourist Development Agency

LISTS OF WITNESSES
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Public Hearing: March 8, 1984
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COMMITTEE POSTSCRIPT

Please take note of the following:

I. In re Immigration Reform Act Interim Report:

Representative Patricia Hill did not wish to have her name affixed to this report.

II. In re Peso Devaluation Interim Report:

Representative Nancy McDonald suggested that the University of Texas at El Paso might be added to the list of considered participants for the proposed TEDC/University Demonstration Project.

Representative Patricia Hill did not concur with the recommendation that the State Legislature consider funding for the TEDC/University Demonstration Project.

III. In re the Committee's Interim Reports:

Representative Al Price did not wish to have his name affixed to any of the Committee's reports.