Date of Hearing: January 7, 2014

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
Jose Medina, Chair
AB 337 (Allen) – As Amended: January 6, 2014

SUBJECT: International Trade Strategy for California

SUMMARY: Adds a required element to the state's international trade and investment strategy (ITI Strategy). The new requirement is an evaluation of the ports of entry to the state and their capacity for handling international trade, including industrial and postconsumer secondary materials, originated in or destined for other states. This new required element would be included in the second update of the strategy, which should occur no later than February 1, 2019.

EXISTING LAW:

1) Requires the Governor's Office of Business and Economic Development (GO-Biz) to provide the Legislature with an ITI Strategy by February 2014 and updated at least once every five years.

2) Requires the ITI Strategy to, at a minimum, include the following:

   a) Policy, goals, objectives and recommendations;
   b) Measurable outcomes and timelines for meeting the ITI Strategy goals, objectives, and actions;
   c) Identification of key stakeholder partnerships that will be used to implement the goals and objectives;
   d) Identification of impediments for achieving the goals and objectives;
   e) Identification of options for funding recommended actions; and
   f) Identification of an international trade and investment organizational structure.

3) Makes findings and declarations that developing markets for recyclable materials creates opportunities that will reindustrialize California and has the capability of creating over 20,000 jobs in California's manufacturing sector, an additional 25,000 jobs in the sorting and processing fields, and an unestimated number of jobs in other fields. Market development includes activities that strengthen demand by manufacturers and end-use consumers for recyclable materials collected by municipalities, nonprofit organizations, and private entities.

4) Defines "postconsumer waste material" as any product generated by a business or a consumer which has served its intended end use, and which has been separated from solid waste for the purposes of collection, recycling, and disposal, and which does not include secondary waste material.

5) Defines "secondary waste material" as industrial byproducts which would otherwise go to disposal facilities and wastes generated after completion of a manufacturing process, but does not include internally generated scrap commonly returned to industrial or manufacturing processes, such as home scrap and mill broke.

FISCAL EFFECT: Unknown

COMMENTS:

1) Central Policy Question: This measure proposes expanding the ITI Strategy to include an evaluation of the state's port of entry capacity for handling import and export of products into and through California. In doing so, the author is structurally changing the strategy mandate by including specific economic components, namely infrastructure. The current statutory construction is not specific relative to the economic elements of the strategy and, instead, defines organizational elements, i.e. goals, timelines, and funding options.

   To the extent that infrastructure related issues are addressed, it may also be appropriate to include the other drivers of the economy in order to ensure the strategy undertakes a comprehensive view of state support for trade and foreign investment. It should be noted that the current ITI Strategy does not include infrastructure, although few would argue the two issues are not related. Below are additional details about the state's trade economy, the existing ITI Strategy, background on ports of entry and recycled materials, and a description of how the ITI Strategy is connected to other planning documents.

2) California's Trade Economy: California's $2 trillion economy naturally functions as an independent nation and is highly dependent on industry sectors that participate within the larger global economy. In fact, compared to other nations, California has one of the 10 largest economies in the world, due to it being a top-tier trade partner, a best-in-class investment location, a high quality producer of goods and services, and the home and key access point for a massive consumer-base. In 2012, California exported $162 billion in products to over 220 foreign countries. While California has been significantly impacted by the recession, exports continued to increase in almost every quarter from 2010 through 2012.

   It is estimated that one in five manufacturing jobs in California is related to trade. Goods movement supports employment, business profit, and state and local tax revenue. The logistics industry is responsible for hiring 73,000 workers. California businesses rely heavily on the state's ports and their related transportation systems to move manufactured goods. Firms rely on fast, flexible, and reliable shipping to link national and global supply chains and bring products to the retail market. Transportation breakdowns and congestion can idle entire global production networks.

   Changes in U.S. and global trade patterns and the continuing development of foreign markets place challenges on California's goods movement and IT systems. These challenges are only expected to become greater as the rate of innovation within manufacturing, transportation, and communication technologies gets faster and the ability of multiple geographic locations to successfully use these technologies expands. California's historic and singular dominance is diminishing as the state's infrastructure, particularly as our ports of entry, fail to keep pace.

3) Export of Industrial and Post-Consumer Secondary Materials: Among other issues related to the workings and competitiveness of California ports of entry, AB 337 singles out the study of how industrial and post-consumer secondary materials are imported and exported through these ports. The California Department of Resources, Recycling and Recovery (CalRecycle) has been tracking the export of recycled materials for nearly a decade. While there is not an exact match between what is currently tracked and analyzed, CalRecycle's work does serve as a basis for further research.

   For discussion purposes, it may be helpful to define industrial and post-consumer secondary materials. Industrial materials include anything having to do with the business of manufacturing products. Post-consumer materials refer to materials or finished products that have served their intended use and have been diverted or recovered from waste destined for disposal. Secondary materials are manufactured materials that have been used at least once and could be used again. Examples of these materials include high-grade paper, mixed paper, plastics, glass, tire and rubber scrap, used oil and grease, batteries, cooper wire, ferrous and nonferrous metals. The recovery and use of industrial and post-consumer secondary materials have become significant business between countries and California serves as a major hub within the movement of recycled materials from U.S. states (including California) to foreign markets.

Sea-borne exports of all commodities shipped from California were valued at $103 billion (71 million tons) in 2012 and over $8 billion (nearly 20 million tons) of that was recycled materials. This reflects an 11% decrease in volume from 2011. Approximately 42% of the U.S. recycle exports by weight (37% by value) passed through California ports of entry in 2012. China, Taiwan, and Korea receive 87% of California's sea-borne recycles.

The author may wish to add language that reflects the existence of one or more reports on ports including CalRecycle's California Exports of Recycled Materials and the Transportation Agency's Goods Movement Action Plan (GMAP), which is discussed below. It may also be helpful to add definitions for industrial and post-consumer secondary materials.

4) U.S. and California Ports: Nationally, the Port of Los Angeles continued to hold the top rank in terms of two-way trade in 2010 (valued at $237 billion). It is followed by JFK International Airport ($162 billion) and the port of Chicago ($135 billion). Data on California's other major ports are as follows: Long Beach ($89 billion, ranked 9th); LAX ($77 billion, ranked 12th); San Francisco International Airport ($50 billion, ranked 18th); Port of Oakland ($40 billion, ranked 25th); Otay Mesa Station ($31 billion); and Calexico-East ($10 billion).

In terms of container activity, the Los Angeles-Long Beach container port ranked 6th globally, behind Shanghai, Singapore, Hong Kong, Shenzhen and Busan. Dollar value is just one way to look at goods movement in assessing trends; it is also important to look at growth. The chart below – Growth at Largest North American Container Ports, 2006-2010, shows that California ports are actually losing market share.

Growth at Largest North American Container Ports (2006-2010)

Port of Entry	Percent Change
Houston, Texas	12.8%
Los Angeles, California	-7.5%
Long Beach, California	-14%
Manzanillo, Mexico	20.8%
New York/New Jersey	3.9%
Oakland, California	2.5%
Savannah. Georgia	30.8%
Seattle, Washington	7.4%
Vancouver, Canada	9.2%
Virginia (reflects 2010 acquisition of APMT Norfolk)	

Source: The California Trade Coalition

5) Doubling Exports in Five Years: In January 2010, the President announced a national goal of doubling U.S. exports within five years, setting a 2015 target for U.S. exports of $3.14 trillion. In accomplishing this goal, the federal government has and will continue to implement new programs,

targeting existing trade related activities, and increasing funding and technical assistance within its current programs.

For California, the second largest exporter of products in the U.S. and the largest receiver of foreign direct investment in the nation, this federal goal could result in significant new trade and investment opportunities. California has already received nearly $4 million in federal funds to administer a state export assistance program for small businesses. Since the announcement of the new national goal, exports from California were up $41 billion. Further, with two new broad-based trade agreements being negotiated and implemented (the Trans-Pacific Partnership and the Transatlantic Trade and Investment Agreement), California ports will face even greater pressure to perform.

6) The Current ITI Strategy: Between 2003 and 2006, California had no trade and international marketing authority. After years of debate, the Legislature and the Governor began an unprecedented collaboration on the development of a new international trade and investment program. Agreements on the new program were codified in SB 1513 (Romero/Figueroa), Chapter 663, Statutes of 2006 and further refined in AB 2012 (John A. Pérez), Chapter 294, Statutes of 2012.

Under California's new trade and foreign investment framework, state activities are required to be directed through the development and implementation of the ITI Strategy. The ITI Strategy is prepared every five years based on current state and regional economic research and a public vetting with the Legislature to ensure the inclusion of jointly agreed upon goals and measurable objectives. The current ITI Strategy was finalized in August 2008 and the next strategy is due in February 2014.

The ITI Strategy takes an industry sector approach based on the state's core and emerging industries. By emphasizing the development of deeper relationships within core and emerging industry sectors and their trade associations, the strategy more closely aligns with other economic development activities at the local level and increases the impact of the state activities and investments. Further, key industry clusters were identified including the following dominant industries of (a) professional business and information services; (b) diversified manufacturing; (c) wholesale trade and transportation; and (d) high-tech manufacturing; and the emerging industries of (a) life science and services; (b) value-added supply chain manufacturing and logistics; (c) cleantech and renewable energy; and (d) nanotechnology.

Based on the 2008 industry clusters, the ITI Strategy identifies the following program objective:

a) Leverage existing services to provide export assistance to companies by the state's primary and emerging clusters;
b) Develop a foreign direct investment program prioritized by the state's primary and emerging clusters;
c) Promote and leverage the California brand;
d) Monitor and engage the federal government in regards to U.S. trade policy; and
e) Integrate international trade and investment into the state's overall economic development strategy.

Under each of the program objectives, the ITI Strategy includes a set of specific actions, including timelines, priority levels, and measurable outcomes. Examples of ITI recommended actions include: (1) building a web-based directory of international, federal, state and local resources to assist small and medium size businesses in their import and export activities; and (2) facilitating export trade promotion through participation in key industry trade shows and business match-making activities during trade delegation visits. The ITI Strategy also strongly relies on coordinated efforts with existing federal and local public and private stakeholders.

AB 337 would add a new focus to the ITI Strategy related to the infrastructure needs of the state in order to adequately support trade, including industrial and postconsumer secondary materials.

7) State Planning and Funding: California's community and economic development policy has historically been driven by a number of statutory mandates including the Environmental Goals and Policy Report (EGPR), Five-Year Infrastructure Plan (Infrastructure Plan), the ITI Strategy, and the Economic Development Strategic Plan.

Collectively, these four policy mandates form the foundation for the state's short-, middle-, and long-term economic success. The EGPR sets the overall long-term framework in which individual departments and agencies develop more detailed plans, including elements of the state transportation and state housing plans. The Infrastructure Plan allows the state to keep track of its infrastructure needs and set a rational infrastructure development agenda that supports the long-term economic and population growth assessments outlined in the EGPR.

The ITI Strategy sets measureable economic objectives relative to the state's position within the global economy. Finally, the development of the state Economic Development Strategic Plan is built on the information and policies provided in the EGPR, the Infrastructure Plan, and the ITI Strategy.

Currently the EGPR and Infrastructure Plan are out of date. The requirement for an Economic Development Strategic Plan was removed in a 2010 budget action. Governor Brown has, however, committed to preparing a Strategic Growth Plan, which could serve as a partial Infrastructure Plan.

8) Goods Movement Planning: As noted above, California is missing key elements of a comprehensive guide that can be used to assess and invest in major community and economic development facilities and programs. In order to draw down federal moneys, the California Transportation Department is, however, undertaking a substantial review and update to the GMAP. The GMAP was originally issued by the Business, Transportation, and Housing Agency and the California Environmental Protection Agency in two phases in 2005 and 2007. The GMAP was a comprehensive plan to address economic and environmental issues associated with moving goods via the state’s highways, railways, and ports. It also provided guidance for allocating $3.1 billion of the $19.9 billion approved by voters in Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006.

The new plan, known as the Freight Mobility Plan, will expand beyond the GMAP to address additional issues such as greenhouse gas emissions goals, as well as to meet the parameters outlined in MAP-21. The Freight Mobility Plan, [AB 14 (Lowenthal), Chapter 223, Statutes of 2013], will focus more attention on community impact issues, take a more in-depth look at trucking, and more thoroughly identify the freight needs of portions of California that did not receive sufficient attention during implementation of the GMAP. In addition to AB 14, the Legislature also considered AB 1081 (Medina), which would have included goods movement related infrastructure identified in the Freight Mobility Plan and the ITI Strategy on the state's five-year infrastructure plan. The five-year infrastructure plan provides the basis for that Legislature and the Governor to make mid- and long-term financing commitments. While AB 337 calls for actions related to the use of California ports of entry to support trade and foreign investment that may be coved in one or more other studies, none of those studies or strategies specifically calls out the increasing use of California ports to move industrial and post-consumer secondary waste.

9) Related Legislation: Below is a list of related legislation.

a) *AB 1081 (Medina) Goods Movement and the 5-Year Infrastructure Plan*: This bill would have expanded the scope of the state five-year infrastructure plan to include the need for goods movement related infrastructure including rail, highways, and air, land, and sea POE facilities. Status: Held on the Suspense File of the Senate Committee on Appropriations, 2013.

b) *AB 1545 (V. Manuel Pérez) Bi-National Infrastructure and Economic Development Bank*: This bill would have expanded the role of the California Infrastructure and Economic Development Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Held on the Suspense File of the Senate Committee on Appropriations, 2012.

c) *AB 2012 (John A. Pérez) Economic Development Reorganization*: This bill transfers the authority for undertaking international trade and foreign investment activities from the Business, Transportation and Housing Agency to the Governor's Office of Business and Economic Development. In addition, the bill transfers the responsibility for establishing an Internet-based permit assistance center from the Secretary of the California Environmental Protection Agency to GO-Biz. Status: Signed by the Governor, Chapter 294, Statutes of 2012.

d) *SB 822 (Evans) Five-Year Infrastructure Plan*: Existing law requires the Governor, in conjunction with the Governor's Budget, to submit annually to the Legislature a proposed 5-year infrastructure plan containing specified information concerning infrastructure needed by state agencies, public schools, and public postsecondary educational institutions and a proposal for funding the needed infrastructure. This bill would have made technical, nonsubstantive changes to this provision. Status: Retained with the Assembly Committee on Budget, 2012.

e) *SB 907 (Evans) 20-Year Infrastructure Master Plan*: This bill would have established an 11-member Master Plan for Infrastructure Financing and Development Commission. The Commission is required to submit to the Governor and Legislature, by December 1, 2013, a long-term plan and strategy for the state’s infrastructure needs and a prioritized plan to meet those needs. The Commission is also required to submit periodic progress reports. Status: Retained by the Assembly Committee on Jobs, Economic Development, and the Economy, 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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