

Date of Hearing: August 12, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

SB 592 (Price/Lieu) – As Amended: June 25, 2013

SENATE VOTE: 38-0

SUBJECT: Trade promotion and California ports of entry.

SUMMARY: Requires the Governor's Office of Business and Economic Development (GO-Biz) to convene a statewide business partnership to discuss the promotion of California ports and to provide the Legislature with a port trade promotion strategy (Port Strategy) on or before January 1, 2014.

Specifically, this bill:

- 1) Sets forth findings and declarations detailing the importance of California ports of entry and seaport facilities in the state's economy and status as a gateway for goods movement including, but not limited to the following statements:
 - a) More than 40% of containerized cargo entering the United States arrived at California ports, almost 30% of total U.S. exports moved through California ports and port activities employ more than 500,000 people and generate close to \$7 billion in state and local taxes annually;
 - b) The completion of the expansion of the Panama Canal in 2014 could possibly result in California ports losing as much as 25% of cargo business and 100,000 jobs; and
 - c) There is a need for a Port Strategy to reflect greater port utilization and address ongoing issues related to ports and promote greater use of ports through an International Trade and Investment Strategy.
- 2) Requires GO-Biz to provide a Port Strategy for California ports to the Legislature on or before April 1, 2014, that includes (a) policy goals, objectives and recommendations necessary to implement a comprehensive port trade promotion strategy; (b) measurable outcomes and timelines for the goals, objectives and actions for promoting trade at ports; (c) impediments to achieving goals and objectives; (d) key stakeholder partnerships that will be used to implement the strategy; and (e) options for funding.
- 3) Requires GO-Biz to convene a statewide business partnership that advises on the Port Strategy, on or before February 1, 2014, that includes, but is not limited to, representatives from ports of entry; ocean carriers; marine terminal operators; warehouse operators; railroads; trucking companies; labor representatives; foreign trade zones; environmental group representatives; and shippers, including agricultural exporters, manufacturers, postconsumer secondary material handlers and retailers.
- 4) Provides for its immediate implementation so that the state can assess and address the potential impact of the 2014 Panama Canal expansion on California ports and port-related jobs.

EXISTING LAW:

- 1) Establishes GO-Biz for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues related to business development, private sector investment and economic growth.
- 2) Specifies that GO-Biz is the primary state agency responsible for the attraction of foreign investment support, so California businesses can access foreign markets. In implementing these duties, GO-Biz is required to provide the Legislature with an ITI Strategy by February 2014.

FISCAL EFFECT: According to the Senate fiscal analysis, implementation of this bill would require \$150,000 to fund one position for six months.

COMMENTS:

- 1) Author's Purpose: "The state has a compelling interest in the success of ports because of the significant economic benefit in terms of jobs, personal income, business revenue, and taxes. Ports are the vital interface between water and land transportation for trade with the Pacific Rim countries and other trade. Port activities employ more than 500,000 people in California and generate an estimated seven billion dollars in state and local taxes annually. It is estimated that nationwide, over two million jobs are linked to California's ports.

Panama is currently underway with an over \$5 billion project to greatly expand the Panama Canal making it deeper and wider, raising the possibility of a significant impact on the flow of goods coming into California's ports. The project will double the capacity of the existing canal by adding wider, deeper and longer locks on both the Atlantic and Pacific sides. There is concern that California ports now have to compete against one another, and expansion of the canal holds the potential for California ports to lose as much as 25% of their cargo business, which may in turn result in an impact of millions of dollars to local economies and over 100,000 jobs."

- 2) Framing the Policy Issue: This measure requires the development of a Port Strategy in consultation with key stakeholders including marine terminal operators, labor representations and shippers, to name a few. Given the significance of global logistical networks to efficiently support expanded supply chains, California is potentially at an infrastructure disadvantage with the expansion of the Panama Canal in 2014.

In February 2013 the Senate Committee on Business, Professions, and Economic Development held a hearing at the Port of Los Angeles entitled "*What Does the Expansion of the Panama Canal mean for Economic Development and Jobs in California.*" Testimony focused on efforts California should make as other states and nations upgrade their ports including intermodal connectivity, streamlined approval of infrastructure improvements, and trade promotion. In proposing a heightened priority for promoting California ports, the author noted the expanding global economy, competitiveness of other U.S. and foreign ports, and the pending update of the ITI Strategy. These issues are discussed in greater depth below.

- 3) The 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 and Figueroa), Chapter 663, Statutes of 2006 and further refined in AB 2012 (John A. Pérez), Chapter 294, Statutes of 2012. The first ITI Strategy under the new rules was completed in 2008 and the next strategy is due in February of 2014.

Based on the research found in the trade and investment study, the current ITI Strategy takes an industry sector approach based on the state's core and emerging industries. Below is the list of dominant and emerging industries from the 2008 ITI Study.

Dominant industry clusters include:

- Professional business and information services
- Diversified manufacturing
- Wholesale trade and transportation
- High-tech manufacturing

Emerging industry clusters include:

- Life science and services
- Value-added supply chain manufacturing and logistics
- Cleantech and renewable energy
- Nanotechnology

Using the lessons learned in the study, the ITI Strategy identified five program objectives including the promotion of the California brand and integrating international trade and investment into the state's overall economic development strategy. The 2008 strategy did not address ports of entry or the logistical network to move products along the supply chain or within global markets. AB 592 would require that these issues be addressed in a separate trade promotion strategy to encourage greater utilization of California's ports of entry. The author may want to consider allowing GO-Biz to include the Port Strategy as a component of the 2014 update to the ITI Strategy.

- 4) Trade Promotion through Market Orders: Marketing orders and marketing agreements are two types of legal structures designed to help stabilize market conditions and increase an industry's comparative advantage to similar companies in other regions of the U.S. and around the world. Industries voluntarily enter into these types of agreements, which are sometimes structured within federal and/or state statute.

The advantages of marketing orders and agreements can help to (1) maintain the high quality of products or services within the market; (2) standardize practices; (3) regulate the flow of products and services within the market; and (4) authorize production research, marketing research and development, and advertising.

Marketing orders differ from marketing agreements in that they are binding on all individuals and businesses that are classified as “handlers” in a geographic area covered by the order. Marketing agreements are binding only on handlers who are voluntary signatories of the agreement. These agreements and orders are generally directed through advisory committees, the membership of which is nominated by the industry and appointed by a government official, such as a secretary of an agency. The advisory committee works to develop regulations that are then voted on by the entire industry. Regulations become binding on the entire targeted group if approved by at least two-thirds of the producers by number or volume.

While most commonly associated with the agriculture industry, market orders and agreements are used in a range of industries. As an example, the California Tourism Marketing Act establishes the California Travel and Tourism Commission (Tourism Commission) as a separate, independent California nonprofit mutual benefit corporation with the purpose of increasing the number of persons traveling to and within California. The Tourism Commission uses a form of a market order to fund promotional activities. Effective July 1, 2013, pursuant to the 2012 Governor's Reorganization Plan, the Tourism Commission will come under the auspices of GO-Biz. This new administrative

responsibility will provide GO-Biz with firsthand information on market orders and market agreements, which could be useful when proposing funding options for the Port Strategy.

- 5) State Freight Plan: Caltrans is currently updating the Goods Movement Action Plan (GMAP), which 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, proposed in AB 14 (Lowenthal), 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 is also considering AB 1081 (Medina), which would include goods movement related infrastructure identified in the Freight Mobility Plan, the ITI Strategy, or the Port 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.

- 6) California's Trade Economy: California's \$1.9 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 having a strategic west coast location and border with Mexico, as well as the advantage of 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 and imported \$376 billion. If California were a country, it would be the 11th largest exporter in the world. Exports from California accounted for over 10.5% of total U.S. exports in goods, shipping to over 220 foreign destinations in 2012. While California has been significantly impacted by the recession, exports continued to increase in almost every quarter from 2010 through 2012.

Mexico is California's top trading partner, receiving \$26 billion (16%) in goods in 2012. The state's second and third largest trading partners are Canada and China with \$17.3 billion (11%) and \$14 billion (9%), respectively. Other top-ranking export destinations include Japan, South Korea, Hong Kong, Taiwan, Germany, the Netherlands and the United Kingdom. Below is a chart of California's top exports in 2012.

2012 Exports From California to the World		
Product	Value (\$ billions)	Percent
334 Computers & Electronic Prod.	44.5	27.6 %
333 Machinery (except electrical)	14.8	9.2 %
336 Transportation Equipment	16.1	10 %
325 Chemical Manufactures	12.7	7.9 %
339 Misc. Manufacture Commodities	13.8	8.6 %
111 Agricultural Products	11.9	7.4 %
All Others	27.2	29.3 %

Total	\$162 (rounded)	100 %
		Source: Tradestates.com

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 since the enactment of NAFTA 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, the communication technology sectors gets faster and the ability of multiple geographic locations to successfully use these technologies expands. Remaining competitive in this new global marketplace will require California to be more aggressive about marketing, attracting, and retaining business activities at the ports.

- 7) National Export Goal and California Ports: In January 2010, President Barack Obama announced the National Export Initiative (NEI) which proposes to double the country's total exports by the end of 2014. The initiative also calls for improvements to the U.S.'s transportation and supply chain infrastructure to enable exporters to transport their goods to ports quickly and inexpensively. Most recent data suggests that U.S. exports are progressing. In 2012, U.S. exports hit an all-time record of \$2.2 trillion, a 40% increase from 2009, supporting 9.8 million U.S. jobs. Additionally, in 2012, California's export shipments of merchandise represented a 35% increase (\$162 billion) over 2009.

Moving these products requires a highly integrated infrastructure and logistical networks that links raw materials with manufacturers and distribution systems. Ports are key hubs within these networks. The Port of Los Angeles continues to hold the top rank in terms of two-way trade in 2011 (valued at \$273.6 billion). It is followed by JFK International Airport (\$192.3 billion) and the Port of Houston (\$168.8 billion). Data on California's other major ports are as follows: Long Beach (\$94.7 billion, ranked 9th); LAX (\$84.6 billion, ranked 12th); San Francisco International Airport (\$50.5 billion, ranked 21st); Port of Oakland (\$45.8 billion, ranked 24th); Otay Mesa Station (\$34.2 billion, ranked 30th).

In terms of container activity, the Los Angeles-Long Beach container port ranked 8th globally, behind Shanghai, China; Singapore, The Republic of Singapore; Hong Kong, China; Shenzhen, China; Busan, South Korea; Ningbo, China; and Guangzhou, China.

- 8) Related Legislation: Below is a list of related legislation.
 - a) AB 14 (Lowenthal) State Freight Plan: This bill requires the state's Transportation Agency to prepare a state freight plan and establish a freight advisory committee. Status: Pending in the Senate Committee on Appropriations.
 - b) AB 311 (V. Manuel Perez) Bi-National Infrastructure and Economic Development Bank: This bill would have expanded the role of the I-Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Held in Assembly Committee on Appropriations in 2013.

- c) *AB 337 (Allen) ITI Strategy and Ports*: This bill adds a required element to the state's 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. Status: Pending in the Assembly Committee on Jobs, Economic Development and the Economy.
- d) *AB 886 (Allen) Export and Import Credit*: This bill would have established a capped and allocated tax credit for importers and exporters that increase cargo through California air and sea ports, hire additional staff, or incur capital costs at a California cargo facility. Status: Held in the Assembly Committee on Appropriations in 2013.
- e) *AB 1081 (Medina) Moving Goods to Market*: This bill integrates goods movement within the states infrastructure planning including the Five-Year Infrastructure Plan and the ITI Strategy. Status: Pending in the Senate Committee on Transportation and Housing Committee.
- f) *AB 2012 (John A. Pérez) Economic Development Reorganization*: This bill transferred the authority for undertaking international trade and foreign investment activities from the Business, Transportation and Housing Agency to GO-Biz. 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.
- g) *SB 460 (Price) International Trade and Marketing and Promotion*: This bill would have required the Secretary of the Business, Transportation and Housing Agency to convene a statewide business partnership for international trade marketing and promotion. Status: Held in the Assembly Committee on Appropriations in 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

None Received

Opposition

None Received

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