

Date of Hearing: April 12, 2011

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE
ECONOMY

V. Manuel Pérez, Chair

AB 1409 (Committee on Jobs, Economic Development, and the Economy) – As Introduced:
March 10, 2011

SUBJECT: International trade and investment strategy: goods movement

SUMMARY: Requires that the next update of the international trade and investment strategy include policy goals, objectives and recommendations from the state Goods Movement Plan (GMAP), as well as related measurable outcomes and timelines.

EXISTING LAW:

- 1) Authorizes BTH to undertake international trade and investment activities, and as a condition of that authority, directs the development of a comprehensive international trade and investment policy for California.
- 2) Requires BTH to prepare a study every five years on the potential roles of the state and global markets. The study is required to make recommendations on policy, program and funding needs in the near- and long-term. Among other things, the recommendations may include infrastructure improvements, workforce training needs, and/or incentives for business.
- 3) Based on the study, requires BTH to develop an international trade and investment strategy every five years thereafter. The Legislature is required to review the study within 90 days of being submitted to the Chief Clerk in each house. The next strategy is due February 2013.
- 4) Requires BTH to convene a statewide business partnership to advise BTH on business needs and priorities for inclusion on the strategy.
- 5) Provides for the issuance of more than \$19 billion (2006 Bond Acts) in transportation related infrastructure bonds, which included \$3 billion for projects that benefit trade corridors and freight and to mitigate air quality issues.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Purpose: According to the author, California must ensure that it has a robust trade infrastructure including its airports, seaports and land ports of entry in order to facilitate the efficient transfer of exports and imports. If prepared, California will benefit under the National Export Initiative, a federal effort to double American exports from 2010 to 2015 and support the growth of two million jobs across the United States.
- 2) California's trade strategy: Up until 2004, the Technology, Trade and Commerce Agency (Agency) was the responsible government entity for promoting economic development,

international trade, and foreign investment in California. When the agency was eliminated, due to its poor administrative performance, the authority for all state trade activity was also struck from statute.

Beginning in the 2005-06 session, several legislative measures were introduced to reinstate the state's trade authority. No measures were successful until a compromise was negotiated by the Assembly Committee on Jobs, Economic Development and the Economy (JEDE), SB 1530 [(Romero), Chapter 663, Statutes of 2006]. As part of its work JEDE produced a white paper on international trade and the state's global competitiveness which can be found at www.assembly.ca.gov.

During the deliberations on the re-establishment of the state's trade authority, concerns were repeatedly raised that the state lacked a comprehensive, or even generally understandable, statutory scheme related to trade and foreign relations. SB 1530 addressed these concerns by first requiring BTH to undertake a trade study to determine what role, if any, the state should play in international trade and foreign investment activities. Second, the bill required BTH to establish a business advisory committee to provide California businesses with direct access to the policy making process. Third, the bill required the development of a trade strategy that is consistent with the trade study and acts as the vehicle for implementing the state's trade policy. The first strategy was published in February 2008. The next update is required in February 2013.

- 3) The Goods Movement Action Plan: The purpose of the GMAP is to improve and expand California's goods movement industry and infrastructure in a manner which will generate jobs, increase mobility, reduce traffic congestion, improve air quality, protect public health, enhance port safety, and improve people's quality of life.

The GMAP work done to date takes a very macro look at the goods movement industry currently serving California business, and makes recommendations for projects on California's highway, rail, and air transport goods movement networks. Some of the recommendations made are as follows:

- a) Provide an assessment of projects as part of a statewide goods movement system;
- b) Prioritize regions and corridors within the state;
- c) Develop a preliminary list of candidate projects; and
- d) Apply a timeframe to those projects to be designated as immediate, short term or long-term.

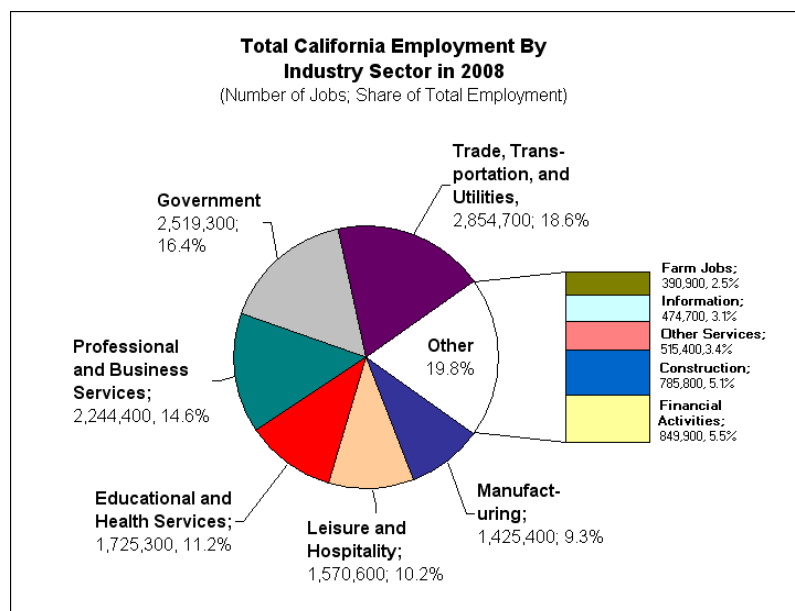
As stated above the current GMAP is a macro-level plan, and does not necessarily reflect the unique needs of different industry sectors or the infrastructure needs of varying size businesses including small and microenterprise. With these small size businesses representing such a significant portion of the state's trade activity, it is important that this issue is addressed in some policy and priority making document. Implementation of AB 1409 would build upon the good work of the GMAP by adding this more refined assessment of trade infrastructure needs.

- 4) The California Economy and Trade: California is the one of the largest and most diversified economies in the world with a gross domestic product (GDP) of over \$1.9 trillion in 2009. Worldwide GDP data in rank order is as follows: United States (\$14.3 trillion), Japan (\$5.10

trillion), China (\$4.90 trillion), Germany (\$3.35 trillion), France (\$2.65 trillion), United Kingdom (\$2.17 trillion), Italy (\$2.11 trillion), Brazil (\$1.57 trillion), Spain (\$1.46 trillion), Canada (\$1.34 trillion) and India (\$1.30 trillion), and the Russian Federation (\$1.23 trillion). If California were an independent nation it would rank as the eighth largest economy in the world.

Historically, the state's significance in the global marketplace resulted from a variety of factors, including its strategic west coast location, its economically diverse regional economies, its skilled workforce and its culture of innovation and entrepreneurship, particularly in the area of technology.

Economic growth in California has also historically outpaced the growth rate of the nation as a whole. In 2007, as an example, California's GDP growth rate was 33.9% as compared to the U.S. at 30.4%. Among other economic distinctions, the state leads the nation in export-related jobs, small business development, and business start-ups, in general.



The **chart to the left**, prepared by the California Employment Development Department, provides detail on California's largest industry sectors in 2008 including the total number of jobs.

International trade is a very important component of California's \$1.9 trillion

economy driving approximately one quarter of the state GDP. Currently, Mexico is our top trading partner, receiving \$17.4 billion in goods in 2009. The state's second and third largest trading partners are Canada (\$14.2 billion) and Japan (\$10.9 billion). Other top-ranking export destinations include China, South Korea, Taiwan, the United Kingdom, Hong Kong, Germany and Singapore. In 2008, 2.7 million people were employed by business related to trade, transportation and utilities.

The most recent trade numbers coming from the U.S. Department of Commerce indicate that California trade (exports and imports) is continuing to move in a positive direction. In 2010, \$10.38 billion in products was exported from California. This was a 13.7% increase over the previous year and the fourth straight month increases were reported based on year-to-year gains. Imports through California ports also rose faster in February reporting a 38.3% increase (\$22.53) over the previous year. The number of loaded shipping containers leaving Long Beach, Los Angeles and Oakland was up by 27% from last year and similar increases were reported for outbound cargo tonnage.

- 5) California Goods Movement: California shipped to over 226 foreign destinations in 2010. The state's three major container ports, Long Beach, Los Angeles, and Oakland, carry more

than 99% of California's total container cargo volume. However, California's trade infrastructure is old and in need of rehabilitation, expansion and updating.

Containerization, just-in-time delivery, and package express are having significant impacts on transportation and supply chain management. In the early years, globalization benefited from cheap transportation costs and increased access to telecommunications. Today, transportation costs are rising, long-term access to relatively low cost oil is being questioned, and global markets are shifting. Companies and manufacturers are moving to China and India not only because it is perceived to be cheaper, but because the middle class in these countries is growing and creating their own new markets for products and services.

For California, expanded supply chains for manufacturing and product distribution have resulted in congested ports, where cargo ships are often delayed for extended periods of time waiting to unload. Truck access is often cited for the delays. At international airports, truck access is also a problem, and expansion of major airports is severely limited by urbanization, ground access, air quality impacts, and local opposition.

- 6) Proposition 1B Transportation Bonds: California voters approved Proposition 1B, which authorized the sale of \$19 billion in general obligation bonds for a variety of transportation purposes in November 2006. The funds are for improving and increasing California's highway capacity, freight rail system, projects to enhance the efficiency of ports, truck corridor improvements and Border access improvements that enhance goods movement between California and Mexico.
- 7) Proposed amendments:
 - a) Clarify that only those portions of the Goods Movement Plan that the Secretary deems appropriate are to be included in international trade and investment strategy.
 - b) Delete a portion of the statute that is no longer relevant to the 2013 strategy update.
- 8) Related legislation from previous legislative sessions: The following is a list of bills that were introduced in previous legislative sessions related to goods movement:
 - a) AB 761 (Coto) Small Business Procurement: State Infrastructure Construction Goals: This bill requires each state agency awarding contracts that are financed with proceeds from the infrastructure bonds approved by voters in November 2006 to establish a 25% small business participation goal for state infrastructure construction contracts and to provide specified assistance to small businesses bidding on state infrastructure bond-related contracts. Status: This bill was signed by the Governor, Chapter 611, Statutes of 2007.
 - b) AB 1107 (Arambula) Goods Movement: Small Business and Microenterprise: As passed by JEDE, this bill would have required the California Small Business Board within the Business, Transportation and Housing Agency in collaboration with the Labor and Workforce Development Agency and the California Department of Food and Agriculture to assess the goods movement needs of small business and microenterprise in California, and to make recommendations thereupon, for incorporation in the California Economic

Development Strategic Plan and the State Transportation Plan. Status: JEDE-related content removed. The bill was vetoed by the Governor in 2008.

- c) AB 1672 (Nunez) California Transportation Commission: This bill makes various findings regarding transportation infrastructure in California, and states certain goals and policies for the expenditure of Proposition 1B bond funds, including the expenditure of money in the Trade Corridor Infrastructure Fund. Status: The bill was signed by the Governor, Chapter 717, Statutes of 2007.
- d) AB 2896 (Karnette) Commercial Development Trade Council: This bill would have created the Commercial Transportation Council in Business, Transportation and Housing Agency to review and collect data, and to provide advice concerning commercial transportation needs in California. Status: The bill was held in the Senate Committee on Governmental Organization in 2006.
- e) SB 19 (Lowenthal) Trade Corridors: Emissions Reduction: This bill declared legislative intent with regard to the expenditure of Proposition 1B bond money for Trade Corridors. Status: The bill was held under submission in Assembly Committee on Appropriations in 2008.
- f) SB 262 (Runner) Trade Corridor Improvements: This bill would have required the California Transportation Commission, when allocating Proposition 1B Trade Corridor Infrastructure money, to consider the impact of a project on goods movement and port operations in the Southern California region, and impacts and benefits of an inland port on reducing congestion at or in the vicinity of the Ports of Los Angeles and Long Beach. Status: The bill was held in the Senate Committee on Transportation and Housing in 2008.
- g) SB 1513 (Perata) California International Trade and Investment Act: Requires the Secretary of the Business, Transportation and Housing Agency to study the feasibility and desirability of establishing permanent international trade and investment programs and authorizes the Secretary to develop a strategic plan for state involvement in international trade and investment. Status: The bill was signed by the Governor, Chapter 633, Statutes of 2006.
- h) SB 1266 (Perata) Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006: This bill provided for \$19 billion in transportation infrastructure bonds including \$3.5 billion to be deposited in the Trade Corridors Infrastructure Fund. Status: The bill was signed by the Governor, Chapter 25, Statutes of 2006.

REGISTERED SUPPORT / OPPOSITION:

Support

Assembly Committee on Jobs, Economic Development and the Economy (sponsor)

Opposition

None received

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