



The California Trade Coalition

A Coalition Working to Keep California Competitive in a Global Economy

American Chemistry Council

APL Ltd.

Associated General
Contractors of California

California Association
of Port Authorities

California Business
Properties Association

California Business
Roundtable

California Chamber
of Commerce

California Manufacturers
& Technology Association

California Nevada Cement
Promotion Council

California Railroad Industry

California Retailers
Association

Consumer Electronics
Association

Grocery Manufacturers
of America

Industrial Environmental
Association

International Council
of Cruise Lines

International Council
of Shopping Centers

Matson Navigation Company

Maersk Inc.

Pacific Merchant
Shipping Association

Retail Industry Leaders
Association

Society of the
Plastics Industry

SSA Marine

Western Home
Furnishings Association

Western States
Petroleum Association

November 22, 2005

Hon. Sunne Wright McPeak
Secretary
Business, Transportation & Housing Agency
980 9th St., Suite 2450
Sacramento, CA 95814

Dr. Alan Lloyd
Secretary
Environmental Protection Agency
1001 I St.
Sacramento, CA 95814

RE: Goods Movement Action Plan Integrating Work Group - Principles

Dear Secretaries McPeak and Lloyd:

Thank you for encouraging stakeholder comments and input to the Integrating Work Group during the current phase of the Governor's Goods Movement Action Plan. We appreciate your continuing efforts to address California's goods movement challenges.

The California Trade Coalition (CalTrade) is comprised of major trade-related businesses and organizations dedicated to keeping California competitive in the global economy. To that end we share your concern that the lack of state and federal investments in our transportation infrastructure will ultimately limit international trade, reduce job opportunities in the logistics industry, and hurt California's global economic competitiveness.

CalTrade believes that the dual propositions of growth and environmental impact reduction are achievable and should remain the focus of the Integrating Work Group. Given the dynamic economics and competitive business environment of international and interstate trade, the number of complex legal and regulatory restrictions and jurisdictions involved, and the diversity of environmental and public health challenges facing California, we believe that there is a right way and a wrong way to approach the facilitation of freight mobility in the State. The wrong way is any set of outcomes which creates cargo diversion or, because of questionable legal authority, spurs legitimate litigation from members of the trade community. The right way was laid out in your policy statement of January 27, 2005.

BT&H and Cal/EPA staff developed, and the Integrating Work Group amended,

a list of 17 prospective guiding principles. While the clear intent of these principles was to gain a working consensus of how the Work Group would proceed as a decision-making body, there are many contradictory and structural problems within these principles, in addition to the likelihood that with 17 principles consensus may be inhibited by the number of competing interests presented within.

CalTrade would recommend inclusion of the policy statement included in your January 27, 2005 as your guiding principle in making decisions. This principle is simply put:

It is the policy of this Administration to improve and expand California's goods movement industry and infrastructure, in a manner which will:

- Generate jobs
- Increase mobility and relieve traffic congestion
- Improve air quality and protect public health
- Enhance public and port safety
- Improve California's quality of life

Simply and elegantly, if the preceding was adopted as the guiding principle of the Integrating Work Group there would be one consistent and meaningful benchmark for every product of a subcommittee or any other Phase II work product. Moreover, a meaningful embrace by each Integrating Work Group member of the original policy statement would likely produce an outcome through consensus that embraces the key goal of the Governor and, consequently, of this process from the start – the improvement and expansion of the goods movement industry and critical infrastructure.

Clearly, without expansion and improvement of our trade sector, and the public infrastructure that supports it, California will lose future job creation to other states and countries, cripple the mobility of goods and vehicles, reduce incentives to make private investments in air quality improvements, and further degrade this state's quality of life.

In addition to the adoption of a guiding principle, CalTrade offers the following comments regarding the 17 prospective Integrating Committee principles:

- *Approach infrastructure projects and mitigation projects on a simultaneous improvement basis. The State's economy and quality of life depend upon the efficient, safe delivery of goods to and from the ports and borders. At the same time, the environmental impacts from goods movement activities must be reduced to ensure protection of public health.*

We agree. However, while much has been made of the goal to simultaneously improve infrastructure and the environment, CalTrade views this as a false trade-off. Both objectives can proceed on their own timelines if as they are independent processes, or simultaneously if emission mitigation is made part of the CEQA requirements governing a project.

- *Consider all goods movement infrastructure and related operations throughout the State as part of one integrated, multi-modal system regardless of funding or ownership (i.e., public, private, or mixed public-private). Such a perspective highlights improvements that can maximize public benefit, leverage existing assets,*

encourage private investment, promote stability and diversity, and expand customer choices.

We agree. But in spite of this premise, an overwhelming proportion of the Goods Movement Action Plan has focused solely on the maritime industry and our public port infrastructure rather than all of the sectors involved in goods movement. While upland infrastructure improvements that have secondary and tertiary benefits to the maritime community are important components of the goods movement system, California's airports, distribution centers, manufacturers, U.S.-Mexico border crossing users, agricultural exporters, domestic road and non-maritime freight rail users also need to have input on any analysis of stated infrastructure needs regarding cargo, freight and goods movement. To highlight this point:

California's non-maritime related domestic, intrastate trade facilitates an estimated \$1.3 trillion in economic activity every year.

California's public ports facilitate approximately \$360 billion in economic activity nationwide.

Furthermore, the impacts of the maritime industry's \$360 billion activity is spread nationwide, with a majority of the road and rail miles traveled falling outside of California, while the \$1.3 trillion of domestic intrastate trade has very localized impacts. Using economic output as a yardstick, domestic intrastate goods movement dwarfs maritime-related trade by over four times. The Work Group should consider the entirety of the goods movement system and all related operations where California's businesses and residents are users and beneficiaries.

- *Avoid changes to one part of the system that damage another part of the system.*

We agree. Californians are purchasing low cost imported goods in their retail outlets throughout the state. Those items will be transported to the state through the ports or by other means. There may be many unintended consequences for consumers, businesses and commuters if new policies force the goods away from the ports without a viable replacement.

- *Develop and apply performance metrics for both infrastructure and mitigation projects.*

We agree. CalTrade encourages the development of metrics that will yield more accurate approximation of health impacts based on monitoring rather than modeling, and a renewed emphasis on cost-benefit analysis of infrastructure and mitigation projects and programs.

- *Streamline existing operations before undertaking capacity expansion.*

We agree. However, any discussion of this principle must take into account the extraordinarily successful programs already undertaken by the goods movement industries to streamline existing operations. Without infrastructure capacity expansion as a next step, many of these programs already implemented, such as PierPass, will not be able to reach their full potential. Through PierPass, the trade community has changed the business practices of the entire supply chain and improved marine terminal throughput, reduced air

quality impacts, and created economic incentives for shipping practices that combat congestion. In addition, by changing the business practices of the entire supply chain through better utilization of our existing transportation infrastructure, members of the California Trade Coalition have already taken steps to improve marine terminal throughput, reduce air quality impacts, and create economic disincentives for shipping practices that exacerbate congestion and delay on Southern California freeways – and we will continue to do so. This is a tremendous step forward for the entire supply chain and should be recognized as the Integrating Working Group makes their recommendations.

- Initially evaluate infrastructure and mitigation projects on their merits without regard to funding sources.

We agree. The caveat is, of course, that the success or failure of a particular project may turn on the specific type of funding eventually selected. Of particular concern to CalTrade is an increasing call for the use of “container fees.” CalTrade believes “container fees” are unconstitutional, violate trade agreements, and would be subject to immediate legal challenge, throwing any projects relying on such funding in jeopardy. Stakeholders should further investigate the viability of other, more broad-based, funding options which may include: a) true user fees on the actual users of new infrastructure proposed for construction; b) the availability of traditional financing tools for these projects, including revenue or tax credit bonds, with capitalization by local sales taxes; c) statewide sales taxes; d) general obligation bonds; and e) incentives and financial backing for the development of true public-private partnerships to create infrastructure.

- Advance projects with highest rates of return – both in terms of investment and public health and environmental improvement. Because resources are always limited, ranking projects on a statewide basis relative to their contribution to performance improvement of the entire statewide goods movement system helps achieve faster improvements.

We agree. We suggest that other infrastructure projects, such as improving the storage and movement of petroleum products at the ports, should also be considered in the list of projects. We believe it is in the State's interest to maintain a holistic approach consistent with broader policy goals and the dictates of the Coastal Act, when exploring these projects.

- Recognize project benefits within, between, and among goods movement corridors that are otherwise ignored or undervalued. When project merits are evaluated by traditional metrics, the value a project may have to the State at large may not be captured. Primary examples include goods movement projects that can open bottlenecks and increase throughput for an entire transportation corridor or projects that relieve congestion and reduce emissions. Properly identifying benefits helps prioritize projects and secure funding for the projects that can do the most good.

We agree. Moreover, per our earlier point, these benefits may be recognized by other infrastructure beneficiaries and users beyond the limited focus taken to date.

- Identify environmental and community impacts, provide needed resources and implement strategies to help mitigate those impacts. Air quality, public health and

community impact mitigation must be fully integrated into goods movement system improvements. Significant investment in emission reduction strategies such as fleet modernization, the use of cleaner fuels, and adoption of cleaner emission control technologies is necessary in order for California to accommodate the expected growth in goods movement and continue progress in protecting the environment.

We agree that impacts to air quality, public health and communities must be mitigated and integrated into improvements to the system. We also believe that any mitigation strategies should incorporate flexible-market based systems that can be designed to achieve both environmental improvement and increase goods movement at the ports. Indeed, CEQA requirements coupled with the development of some infrastructure improvements, in and of themselves, will achieve the integration of mitigation into system development. However, the last sentence is not a decision-making principle but proscriptive set of actions, unlike the language of any other principle. Their prescription as part of a principle for guiding discussions is not appropriate. Clearly, the first two sentences are a good working definition for focusing the policy directive of improving the environment, public health and Californians' quality of life, making the last sentence unnecessary.

- *Implement community mitigation on a priority basis (address the most impacted first).*

We agree.

- *Secure statewide consensus on projects when pursuing federal support. A major factor that causes California to get less than its "fair share" of federal funding is intrastate jockeying for limited federal dollars. Presenting a unified, statewide slate of projects (as most other states do) helps increase the likelihood for the State to receive its fair share allocation.*

We agree. We believe that a more concerted effort needs to be undertaken to seek the return of a greater share of goods movement-related monies flowing to the federal treasury. For example, every year California sends more than \$6 billion in customs revenue to the federal general fund and sees none of that money returned for infrastructure improvements or environmental mitigation.

We must also ensure that state efforts do not preclude us from accessing federal funds. By way of example, should the California Air Resources Board (CARB) approve its proposed cargo-handling equipment regulations, California would be excluded from accessing \$200 million dollars a year earmarked by the recently enacted federal legislation. The Diesel Engine Emission Reduction Act of 2005, included in Public Law No: 109-58, was signed by the President on August 8, 2005 and authorized \$200 million annually (FY 2007-2011) to retrofit outdated diesel engines, which could also include cargo handling equipment at ports. Under this important program, however, only voluntary/elective programs are eligible to receive federal funds to retrofit and replace diesel engines; mandatory regulations presented by the Air Resources Board, therefore, would bar California from tapping into this reserve which would result in substantial emissions reductions throughout the state. We should also note the same source of federal funds are available to Port Authorities to retrofit diesel engines in trucks operated by independent owner-operator drivers calling marine terminals. Federal support for this type of initiative promises to significantly improve air quality at California ports in the

shortest period of time. We must be cognizant of such conflicts and, more importantly, be proactive when accessing federal aid.

- *Instill a sense of urgency to accelerate project delivery and environmental protection. By their nature, infrastructure projects are long lead-time endeavors that face many obstacles until they are placed into service. Relating the importance of goods movement projects and environmental improvement to the State's economic well-being will help keep projects on schedule and provide motivation for aggressive action to relieve local communities from unfavorable goods movement impacts.*

We agree.

- *Consider land use implications in goods movement decisions.*

We agree to the extent that the opposite consideration is granted as well – that goods movement implications are considered by those making land use decisions. By noting where our population grows and by acknowledging that this growth increases consumer demand, we can easily predict that capping growth in our ports will not limit growth in trade. Rather, limiting throughput at our public ports will divert importation to other seaports outside of California and change the mode of delivery of goods away from cleaner-per-container vessel transits to dirtier-per-container truck transits back into the state. That being said, many of the community concerns regarding goods movement has stemmed directly from competing state and local interests that result in incompatible land uses, particularly homes, being sited near or impacted by goods movement facilities, and new goods movement-related facilities and activities being placed or expanded next to existing neighborhoods. To begin to comprehensively address this issue, CalTrade suggests that the Integrating Work Group consider the following:

1. Require cities and counties to work with ports and other goods movement facilities in planning future uses surrounding those facilities, and to send relevant planning documents to those facilities for comment before finalizing such plans.
 2. Require the state to work with local agencies in siting new state-funded infrastructure projects to avoid unnecessarily impacting existing neighborhoods and future planned neighborhoods, and review state requirements that encourage incompatible land uses, such as housing and school siting policies.
 3. Ensure owners of property in the vicinity of these facilities, and future buyers or tenants of those properties, are made aware of the goods movement facilities that could potentially impact them (similar to the airport land use compatibility plan and disclosure law).
- *Spur private sector investment and public-private partnerships to leverage public investment. The goods movement system is a complex supply chain of activities and facilities under private, public, and mixed public-private ownership. Gaining consensus on a statewide basis for the major elements necessary to build out the State's goods movement system helps provide the confidence needed by the private sector to determine how best to make private and public-private investments that add value to the system.*

We agree.

- *Provide a higher-level forum to engage cooperation outside state jurisdiction. California's goods movement system requires cooperation and support from stakeholders who are not subject to California control. These include adjacent states, the federal government, and foreign carriers. In addition, other stakeholders that operate in the State but have national or global operations (including retailers, railroads, and logistics companies) are critical participants in the process. Operating at the State level with these stakeholders improves the State's overall position as compared to merely allowing each region and locality to vie for attention separately.*

We agree. By acknowledging the scope and breadth of the goods movement industry and its unique international governance issues the State can avoid overstepping its legal and jurisdictional confines and instead find creative market-based solutions to our challenges.

- *Create awareness for relevance of the goods movement industry to Californians. Just as the goods movement industry is a critical element of the State's economy, having the support and confidence of the people of California is critical to expanding the infrastructure and mitigating the impacts of the industry's operation. The State can play an important role in the education process and can reinforce the efforts of local and regional entities to communicate the needs and benefits of improving the goods movement infrastructure to the public.*

We agree. CalTrade members know first hand the power of trade and the logistics industry as they help facilitate approximately \$360 billion worth of foreign trade through California's ports each year. Port activities generate \$3.6 billion annually in tax revenues for state and local governments, school districts and other special districts in California. An estimated 930,000 jobs in California are directly or indirectly provided by the ports or activities at the ports, and employers annually pay an estimated \$34 billion in wages, salaries and employee benefits to employees who in turn use those wages to consume products and services around the state.

- *Seek opportunities to promote synergies with other statewide policy initiatives. Active consideration of goods movement issues with statewide initiatives in areas such as housing, land use, agriculture, international trade, economic development, military base re-use, and energy resources promotes good public policy. Most of all, achieving the Administration's purpose will require flexibility, perseverance, and commitment.*

We agree.

We remain optimistic that we can work together to both improve California's transportation infrastructure and air quality. By reaching out to additional industry stakeholders whose needs are not currently being evaluated, acknowledging that the ports and leaders in the maritime industry are willing to do more so long as the mitigation is based on sound science, making policy choices mindful of possible diversion of cargo, potential litigation and the negative job impacts of both, and drawing consensus around

the dual ideas of environmental and economic stewardship, the Integrating Work Group can put forward a workable alternative to our current infrastructure and impact mitigation landscapes.

Should you have any questions about the specifics behind any or all of our comments we would be more than happy to discuss them with you, your staff, or any of the GMAP work groups.

The California Trade Coalition looks forward to being your partner in this process–Please feel free to contact us or our individual member companies and associations if you need additional information or if we can be of further assistance.

Sincerely,

The California Trade Coalition