

ALASKA LEGISLATURE COMMITTEE FILES 2007-2008 HIRA 12412

### The Alaska Cruise Industry

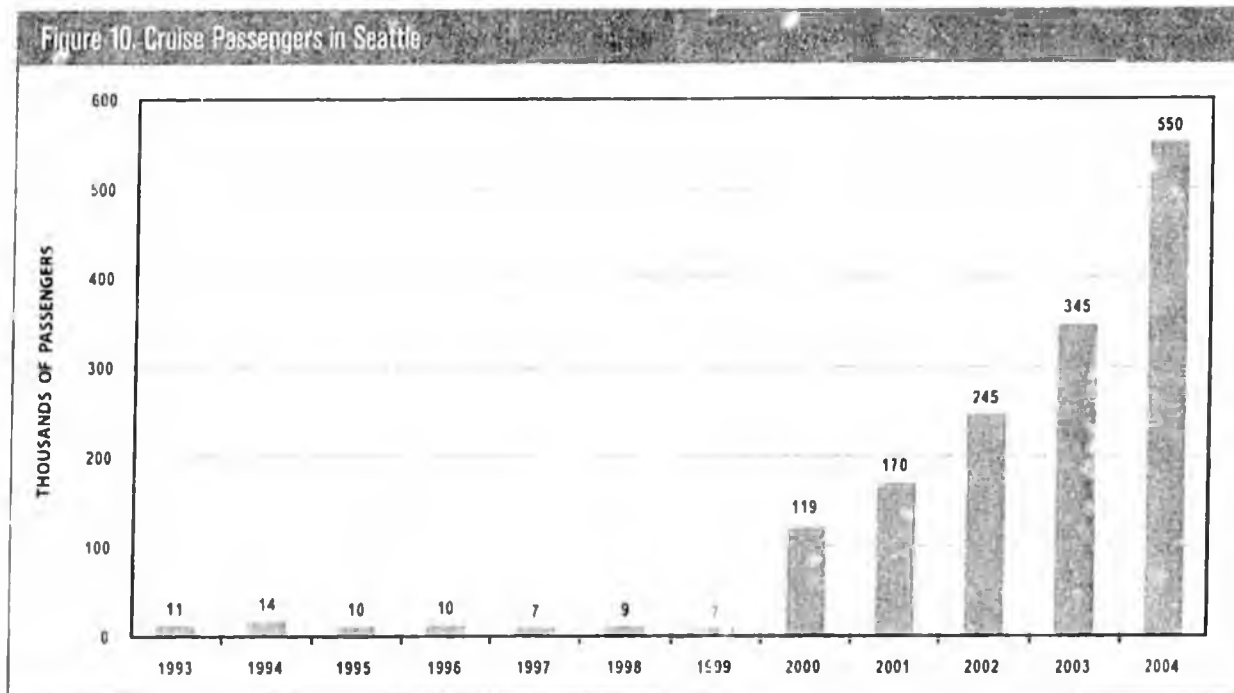
Another important transportation-related link between Puget Sound and Alaska is the Alaska cruise industry. Alaska is now the fourth most popular destination for the burgeoning U.S. cruise industry.

Over the last ten years, the Alaska cruise market enjoyed phenomenal growth, reaching 1.6 million passengers in 2003. A similar pace of growth is projected over the next ten years. One inhibiting factor is that Glacier Bay, the most favored cruise location, has reached the maximum volume of calls under the existing federal permit system. Continued growth in the industry will require a focus on other attractive destinations in Southeast and South Central Alaska.

Although 90 percent of Alaska cruise passengers are U.S. citizens, few large cruise ships are U.S. flagged. Most vessels in this class depart from Vancouver, B.C., where approximately 20 ships provide 250-300 homeport calls annually. In recent years, Seattle has captured a significant portion of this lucrative Alaska cruise industry. The Port of Seattle estimates that in 2004 Alaska cruise vessels will total 150 visits (home port or port of call) with 550,000 passengers (Figure 10).



Cruise Ships at the Port of Seattle's Terminal 30.  
Photo by Don Wilson, Port of Seattle.



Note: 2004 is forecast year  
Source: Port of Seattle

Even before Seattle's emergence as a port-of-call for cruise ships, Seattle-Tacoma International Airport was the regional gateway for 55 percent of all Alaska cruise passengers arriving into the area. Regional economic benefits of the Alaska cruise industry in those days were meager -- perhaps occasional overnight lodging and related expenditures in Seattle before being bused to Vancouver, B.C., for embarkation.

Seattle is now a significant participant in the Alaska cruise trade. The city receives a growing number of Alaska cruise calls -- 99 calls carrying 345,000 passengers in 2003, compared to only 12 calls with 14,000 passengers in 1994. The vast majority of these port visits are "homeport calls" -- passengers embark and disembark for their cruise and the vessel often takes on supplies and provisions. Seven large luxury liners now call the Port of Seattle home.

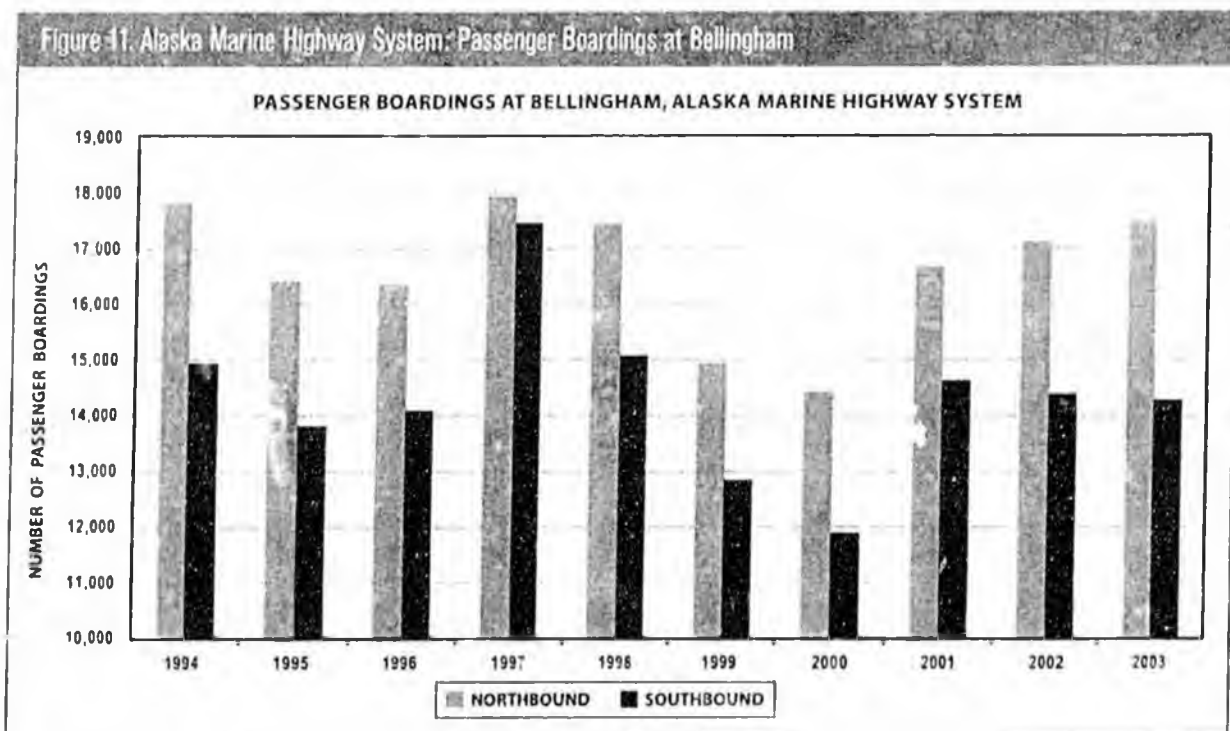
Seattle is home for the administrative offices of both the largest cruise lines, Holland America Line and Princess Cruises, and four U.S.-flag operators with smaller ships, Cruise West, Glacier Bay, American Safari Cruises, and America West Steamboat. These administrative headquarters have a significant share of their administrative employee base linked to the Alaska cruise market and a majority of the crews of the U.S. flag operators are hired locally.

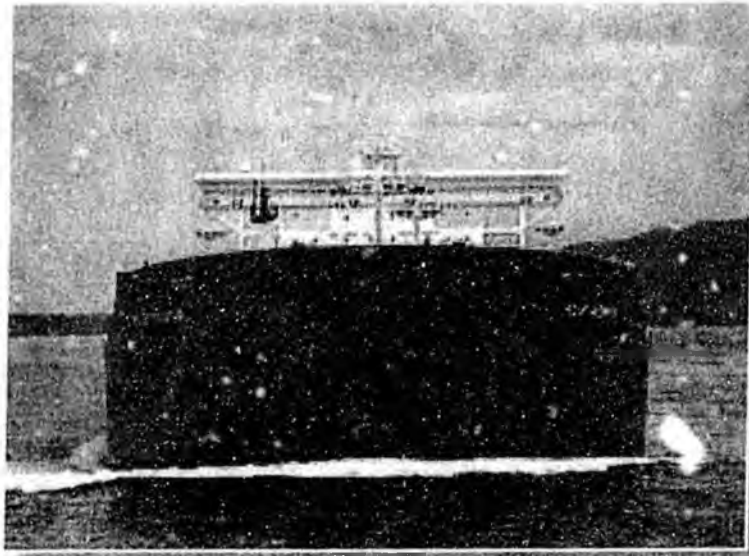
Earlier this year, the Port of Seattle released a comprehensive economic impact study of the Alaska cruise ship industry (John C. Martin Associates, 2004). In that study, it was estimated that Alaska cruise operations create 530 direct jobs with \$13.7 million in wages and salaries. Vessel expenditures in 2003 were estimated at \$55.7 million, and expenditures of Seattle boarding passengers were estimated at \$51 million.

Cruise operators headquartered in Seattle, however, believe these economic impacts are seriously understated in the study. Not included, they say, are the substantial economic benefits derived from locating their headquarters there.

This Chambers of Commerce-sponsored analysis included a portion of the administrative function in the direct impact, which for 2003 amounted to 1,087 employees with \$74 million in wages and salaries. The total economic impact of the Alaska cruise industry adds up to 3,401 jobs with \$159 million in labor earnings.

Another portion of passenger waterborne transport is the Alaska Marine Highway System. With its southern terminus at Bellingham, the Alaska State ferry has about two sailings per week. Figure 11 shows the trend of activity at the Alaska ferry's Bellingham terminal during the 1990s.





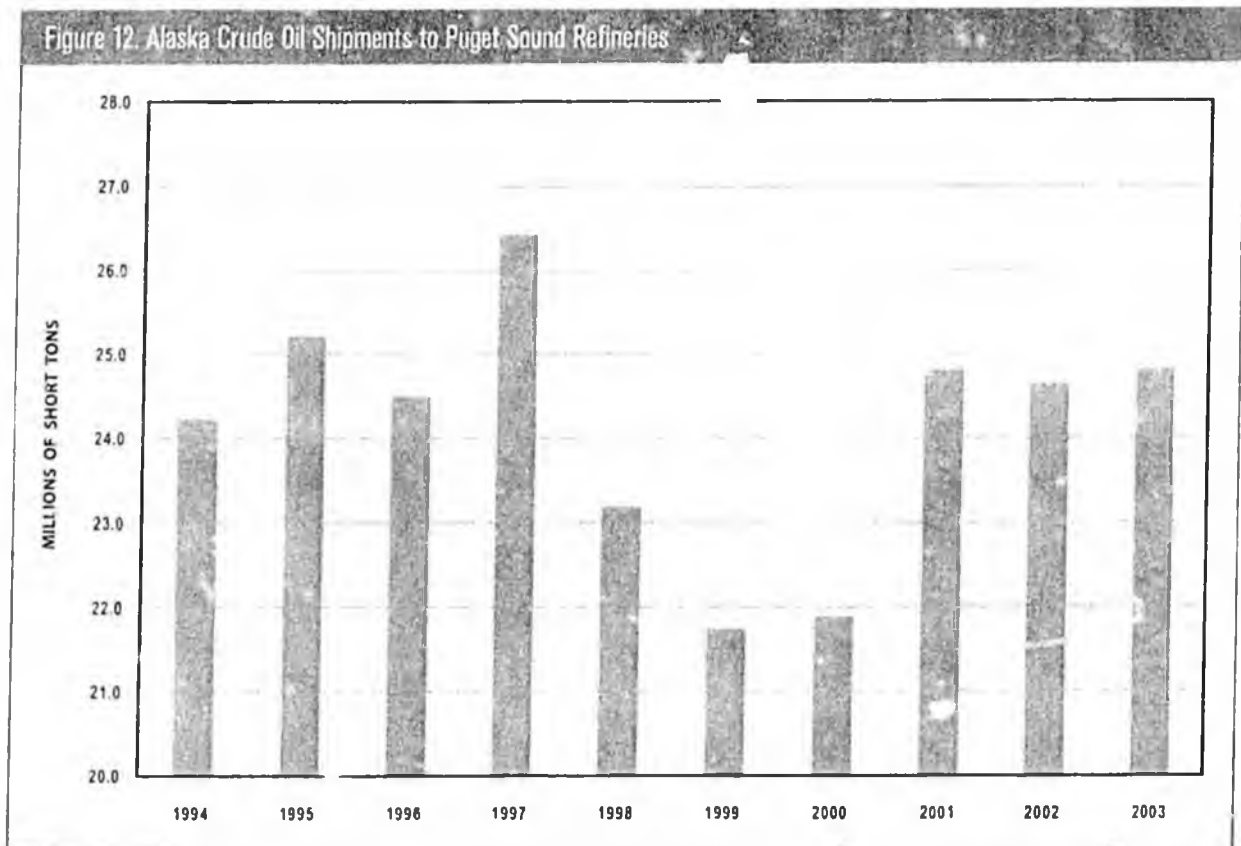
The tanker Polar Endeavour approaches Anacortes, Washington. Polar Tankers Inc. is a wholly owned subsidiary of ConocoPhillips, which operates five ships in the Alaska trade. Photo by Bill Sutton.

### **Petroleum**

Petroleum refining is a major industry in Puget Sound that purchases almost its entire crude oil stocks from Alaska. Direct impacts from the refining of Alaska crude oil within the Puget Sound region include 1,990 jobs and \$144.5 million in labor earnings. In 2003, oil refineries in Puget Sound imported \$2.8 billion worth of crude oil from Alaska. Although no new refineries have been built, refining capacity in the Puget Sound region continues to expand; between 1994 and 2003, capacity increased from 555,000 to 607,950 barrels per day.

With completion of the Trans-Alaska Pipeline (TAPS) in 1977, crude oil shipment volumes to Puget Sound grew steadily, reaching a peak of 26.8 million short tons in 1992. The 24.8 million

tons shipped in 2003 met more than 90 percent of the needs of regional refineries, with the remainder coming from foreign producers via tanker or from Alberta via the Transmountain Pipeline system (Figure 12).

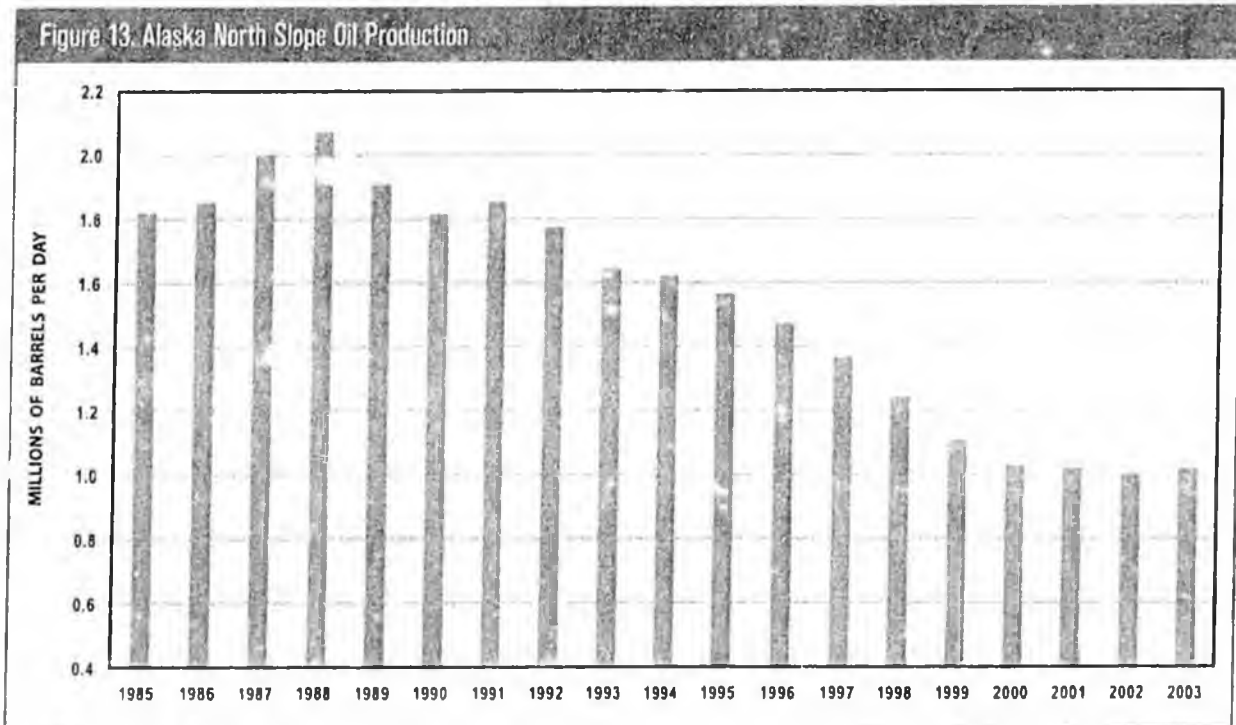


Source: Army Corps of Engineers

As additional North Slope oil fields were brought into operation and their output was added to that of the giant Prudhoe Bay field, crude oil production increased in Alaska until 1988 when it reached 2 million barrels per day. Since then, even as new fields were brought on line, aggregate production has steadily fallen to slightly below one million barrels per day in 2003 (Figure 13).

Enhanced recovery methods and development of marginal fields have slowed the decline of oil production from Prudhoe Bay. Total oil produced from the North Slope is currently at 992,000 barrels per day and is expected to moderate around this level for the next ten years (Alaska Department of Revenue, 2004).

In addition, at \$23.35 per barrel in 2003, the wellhead price of oil was at its highest level since 2001 (Figure 14). A period of high crude oil prices generally provide a stimulus for exploration, development and production on the North Slope and tends to cause companies to increase their capital outlays. In 2004, although the price per barrel is at record highs petroleum companies have not increased capital outlays in Alaska due to other competing worldwide opportunities. However, the extended period of higher prices has provided some stability within the Alaska-based oil and gas industry

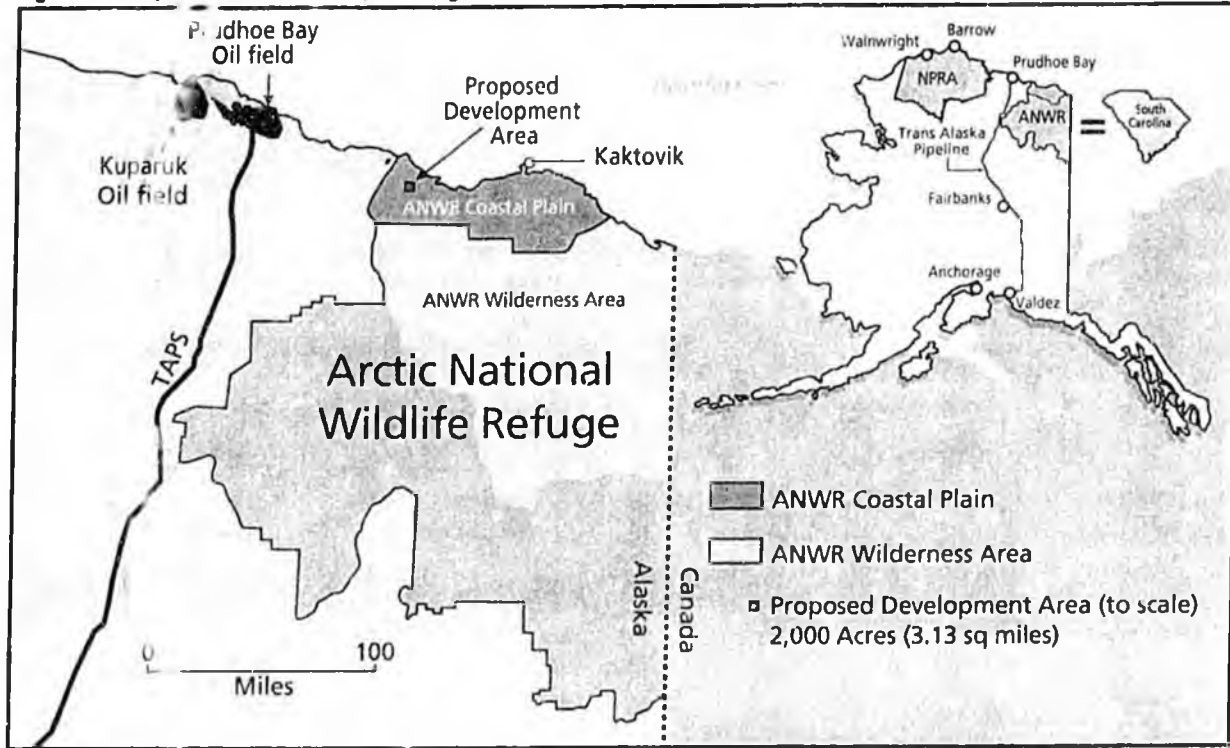


Source: Alaska Oil and Gas Conservation Commission

### Future Scenarios for Oil Production in Alaska

Alaska petroleum output is important to Puget Sound in several ways. Most obviously, Alaska crude is a raw material for Puget Sound refineries. In addition, Puget Sound ports have served as staging areas for oil-related construction projects on Alaska's North Slope, particularly during periods of vigorous exploration and development. Perhaps most significantly, oil-boostered state spending stimulates Alaska's economy, increases the purchasing power of its residents, and increases demand for Puget Sound goods and services. Since the 1970s, oil revenue has comprised nearly 85 percent of the state general fund; therefore, the decline in oil production at Prudhoe Bay leaves state government in an insecure position.

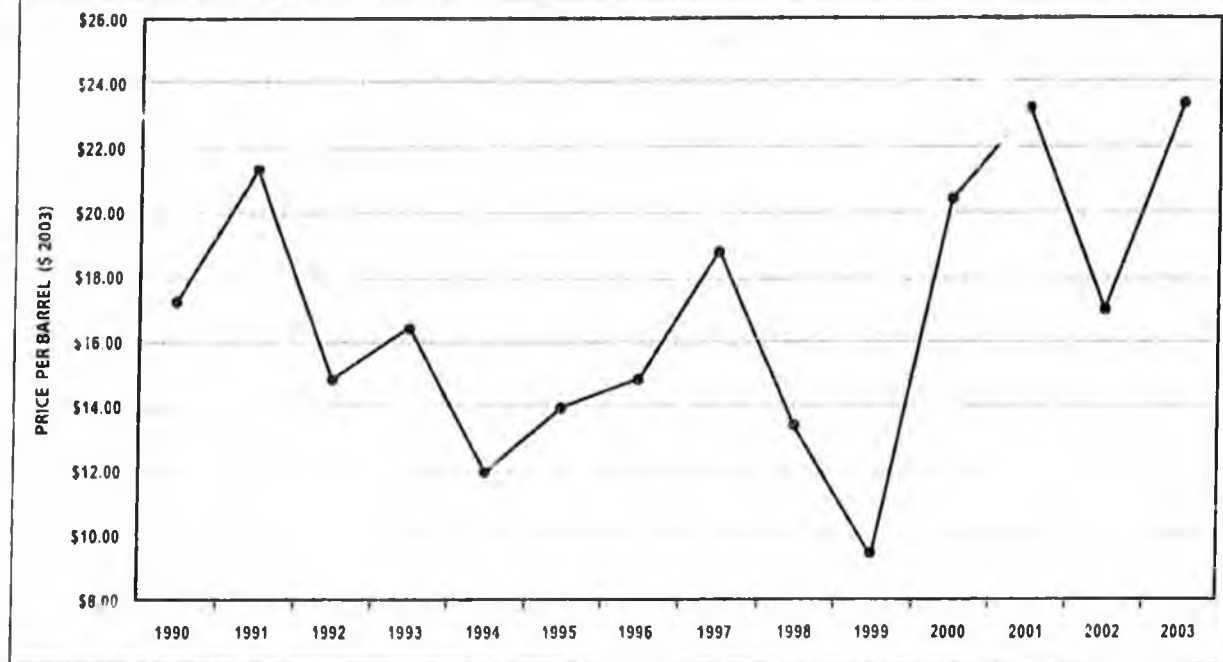
**Figure 14. Map of Northern Alaska, showing ANWR Coastal Plain and proposed development area.**



Source: Alaska Department of Natural Resources

Future oil production from the North Slope is expected to decline only modestly and remain in the 1 million barrel-per-day range for the next ten years. While the Prudhoe Bay field is declining, small, independent companies are using new technology to develop smaller marginal fields in the area, and production from existing fields such as West Sak and Alpine is increasing. ConocoPhillips and BP recently announced plans to boost Alaska's heavy oil development program. The project will more than double the amount of heavy oil collected from West Sak and other North Slope oil fields. National Petroleum Reserve Alaska (NPR-A) reserves are expected to come on-line by 2010, as are Point Thomson and other new fields to further off-set the steep Prudhoe Bay decline.

Figure 15. Crude Oil Prices, Alaska North Slope Wellhead



Source: Alaska Oil and Gas Conservation Commission

A majority of Alaska residents and Alaska natives support responsible exploration and development of the Coastal Plain (Section 1002 area) of the Arctic National Wildlife Refuge (ANWR). However, Congress has declined to pass enabling legislation in the face of pressure from environmental activists.

A 1998 US Geological Survey study concludes that ANWR contains .7 billion to 16 billion barrels of recoverable crude oil, with a mean of 10.4 billion barrels. This estimate approaches the recovered amount of oil from Prudhoe Bay, the largest discovery ever in our nation.

Nonetheless, due to the political battle over ANWR, the industry is more optimistic about the possibilities of developing the huge reserves west of Prudhoe Bay in the National Petroleum Reserve Alaska (NPR-A). Proven reserves in the National Petroleum Reserve are estimated at 1.3 billion to 5.6 billion barrels. There are no estimates of economic gains in Puget Sound resulting from NPR-A development.

### **The Alaska Gas Pipeline**

The proven reserves of North Slope natural gas are enormous: 35 trillion cubic feet (tcf). But according to the US Geological Survey's estimates, the reserves may hold as much as 211 tcf (Cashman, 2004). The challenge has been bringing the gas to market at a competitive price. Plans and proposals have been floated for years, only to flounder because of high costs, weak prices, politics and worldwide supplies that enjoy competitive advantage. Over the years, two principal plans have focused on construction of a natural gas pipeline. One is along on the right-of-way of the existing Trans-Alaska oil pipeline to a gas liquefaction plant in Valdez, and the other would be a 3,500-mile pipeline through Canada to the Midwest. Well over \$1 billion has been spent over the years on marketing, engineering studies, and permitting.

No one denies that conventional sources of natural gas in North America are being depleted and that growing demand for cleaner burning fuels will put pressure on remaining reserves. But Alaska is not the only potential source for major new gas supplies for the nation. Alaska must compete with gas fields in Australia, New Guinea, Indonesia, Oman, Qatar, Yemen, and the Russian Far East (Sakhalin Island).

The current estimates for building a gas pipeline across Canada are \$20 billion to \$25 billion. Construction of the pipeline by the trans-Canada route would bring jobs to Alaska and Puget Sound, but few after construction. ConocoPhillips Alaska — one of the major owners of natural gas reserves on the North Slope — estimates that 17,000 workers in the United States and 12,000 workers in Canada would be needed to build the pipeline to the Midwest. Only 200 operations jobs are likely once production begins (Benett, 2004). Also, compared to oil production, the project is likely to deliver less long-term gain through tax and royalty revenue for Alaskans and would not bring tanker traffic to Puget Sound. Currently tankers carrying crude from Valdez arrive almost daily at refineries in Anacortes and north of Bellingham.



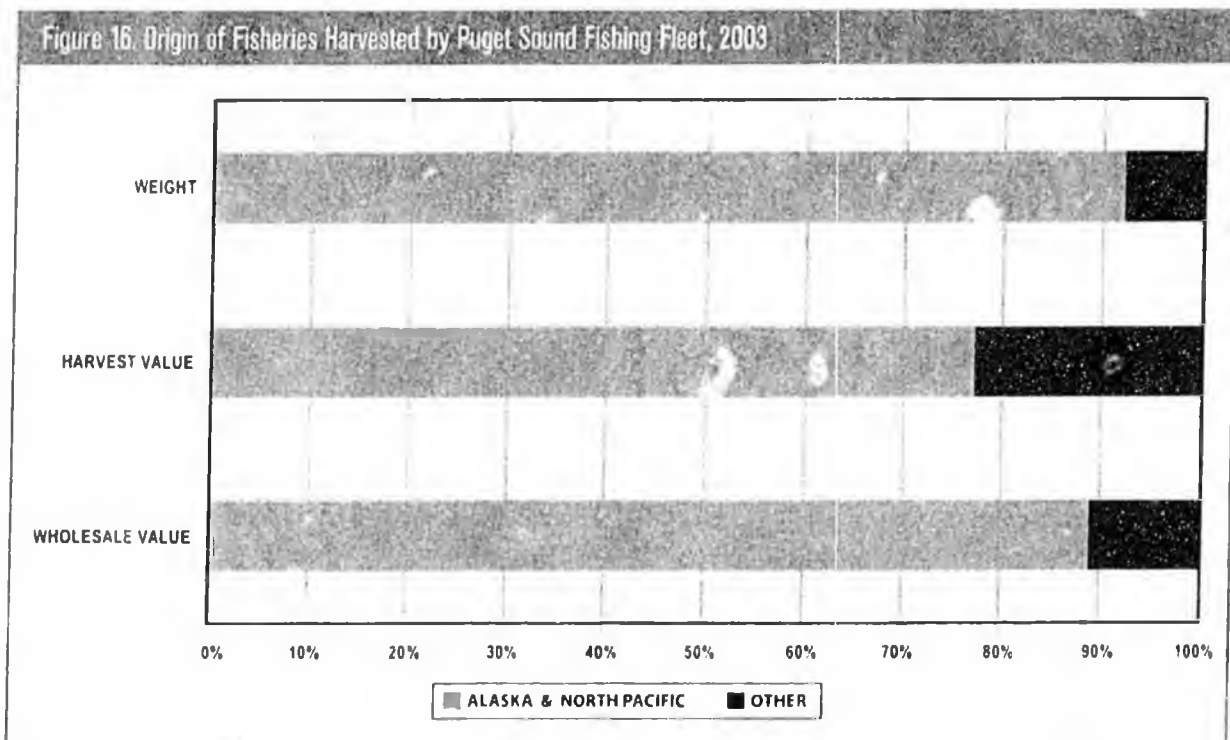
Fillet inspectors at work on a pollock catcher-processor in Alaskan waters. Photo courtesy of American Seafoods.

## FISHERIES

Commercial fishing off the coast of Alaska by Puget Sound-based vessels dates back to the days when Washington was a territory. In the late 1800s, fishermen launched their wooden schooners and sailed north to harvest cod, salmon, halibut, and herring in Alaska waters.

Today, Puget Sound's distant-water fleet and seafood processing companies remain heavily reliant upon this rich North Pacific resource. Though only a fraction of the regional economy is based on the fishing industry, several cities, including Bellingham and Anacortes, plus the Ballard neighborhood of Seattle, remain highly dependent on them. Puget Sound ports are now also home to the groundfish trawlers and at-sea processors that have joined the historic and traditional high-line halibut boats, seiners, crabbers and tenders in the fleet. Traditionally, a significant share of the fish harvested in Alaska waters has been processed in Puget Sound; the groundfish industry has followed precedent as is evident by the increase of secondary processing plants throughout the region in recent years.

Figure 16. Origin of Fisheries Harvested by Puget Sound Fishing Fleet, 2003



Notes: "Origin" refers to where fish are harvested. Harvest or ex-vessel values do not include the value added by at-sea processors and hence reflect the value of the catch prior to processing.

Sources: Alaska Department of Fish and Game; North Pacific Fishery Management Council; National Marine Fisheries Service.

State and federal fisheries have been managed well in Alaska over the years. The stocks are healthy and fishery managers anticipate future stability within the confines of their generally normal cycles. Halibut and sablefish (black cod) are now managed under individual fishing quota systems (IFQs) that have increased the values of the fisheries and brought fresh product to the consumer almost year-round.

Total employment in fishing and seafood processing has been relatively stable. Most growth since 1992 is due to the tremendous increase in the number of groundfish trawlers that operate in the Bering Sea and Gulf of Alaska, plus the at-sea and shore-based processors in Alaska and Puget Sound that serve the trawlers.

Prior to the 200-mile limit on domestic waters in 1976, the fleet was entirely foreign. After Congress passed the Magnuson-Stevens Act<sup>3</sup>, there was a period of transition to joint ventures, with U.S. vessels delivering their catch to foreign factory ships. Now, the Alaska fishery is completely "Americanized," meaning 100 percent of the quotas are harvested and processed by Americans.

Although combined employment in these industries declined slightly between 1994 and 2003, processing of fresh and frozen packaged seafoods has enjoyed dramatic growth, which is reflected in the increased employment in seafood processing. Puget Sound seafood processors added workers between 1994 and 2003, in part due to re-classifying at-sea processors (formerly classified as factory trawlers) as seafood processors. Fishing fleet employment, which totaled 8,726 workers in 1994, has declined to 5,950 due to harvest level quotas and reclassification.<sup>4</sup>

In 2003, the Alaska-related portion of Puget Sound regional fishing jobs was 5,950 with \$482.5 million in earnings. Comparable figures for Puget Sound seafood processing were 4,144 jobs, with a payroll of \$188.3 million.

These direct impacts are substantially exceeded by the indirect impacts that arise from the purchase of goods and services by the fishing fleet and the spending of worker earnings in the region. All 62 sectors of the regional economy are affected to some degree by Puget Sound fishermen harvesting fish within Alaskan and North Pacific waters (Table 8).

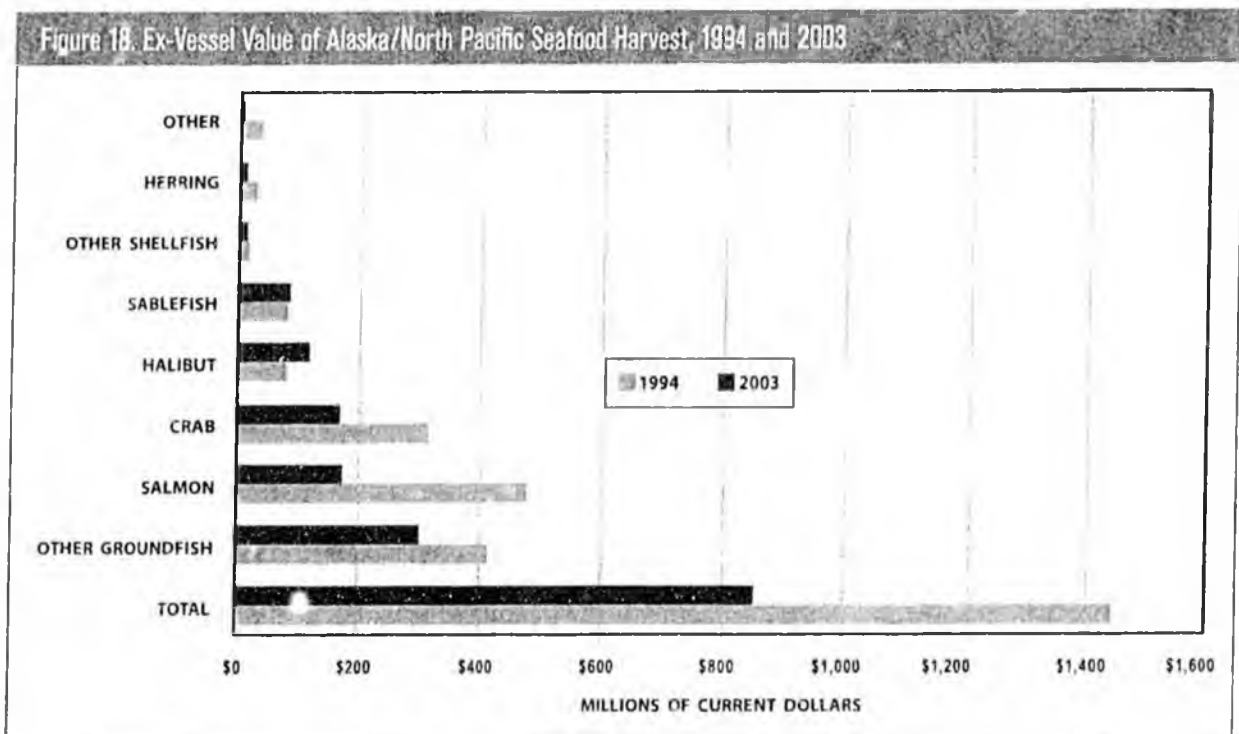
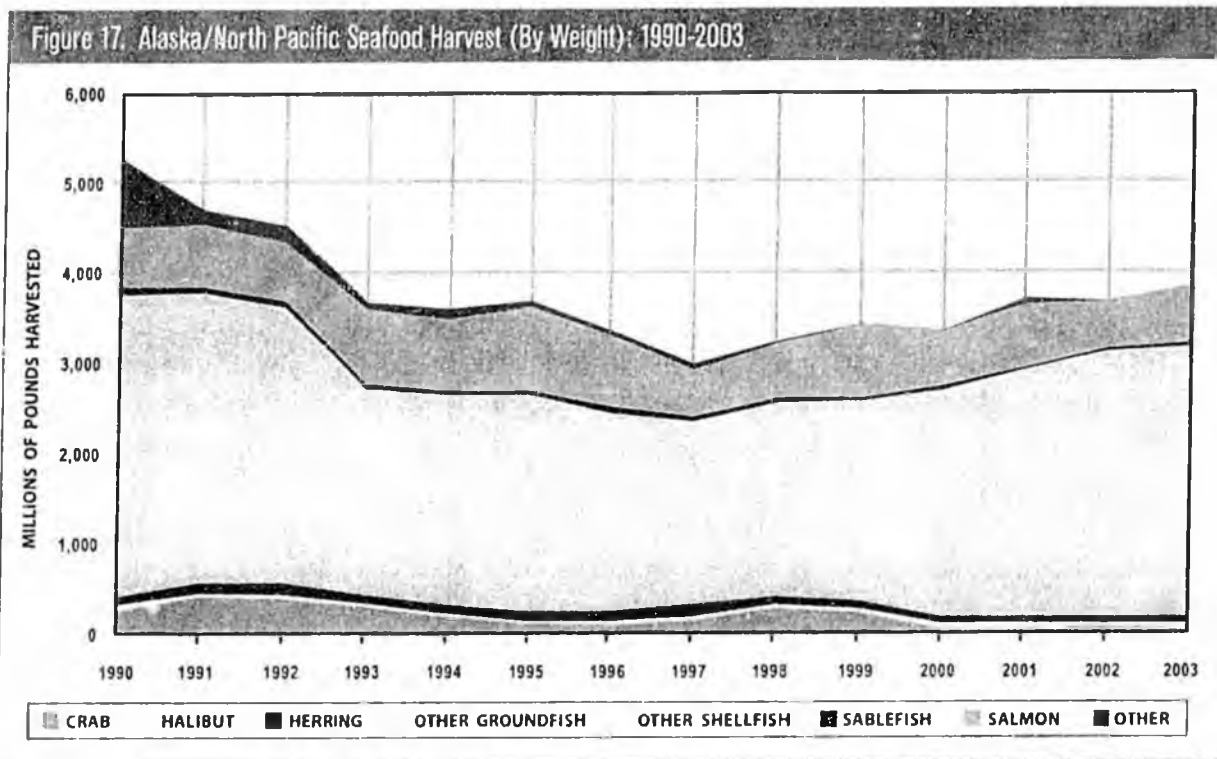
**Table 8. Economic Impact of the Puget Sound Fishing Fleet, 2003**

	<i>Output (\$ Millions)</i>	<i>Jobs</i>	<i>Labor Earnings (\$ Millions)</i>
<b>Direct Impact</b>			
Fishing Fleet	\$659.5	5,950	\$297.0
<b>Indirect Impact</b>			
Natural Resources	\$7.0	53	\$0.9
Manufacturing	\$172.0	918	\$42.5
Construction	\$6.1	90	\$3.3
Transportation	\$28.9	246	\$10.9
Utilities and Communications	\$40.2	157	\$9.2
Trade	\$121.4	1,909	\$52.6
Finance, Insurance and Real Estate	\$109.6	602	\$33.9
Services	\$134.5	2,147	\$79.5
Total, Indirect Impact	\$619.7	6,122	\$232.8
<b>TOTAL IMPACT</b>	<b>\$1,279.2</b>	<b>12,072</b>	<b>\$529.8</b>

<sup>3</sup> See glossary entry on Magnuson-Stevens Act.

<sup>4</sup> According to the U.S. Bureau of Labor Statistics and the Washington Department of Employment Security, employment on fishing trawlers is classified as fishing fleet; employment on at-sea processors is classified as seafood processing. Much of the decline in the fishing fleet is due to this change in classification to seafood processing.

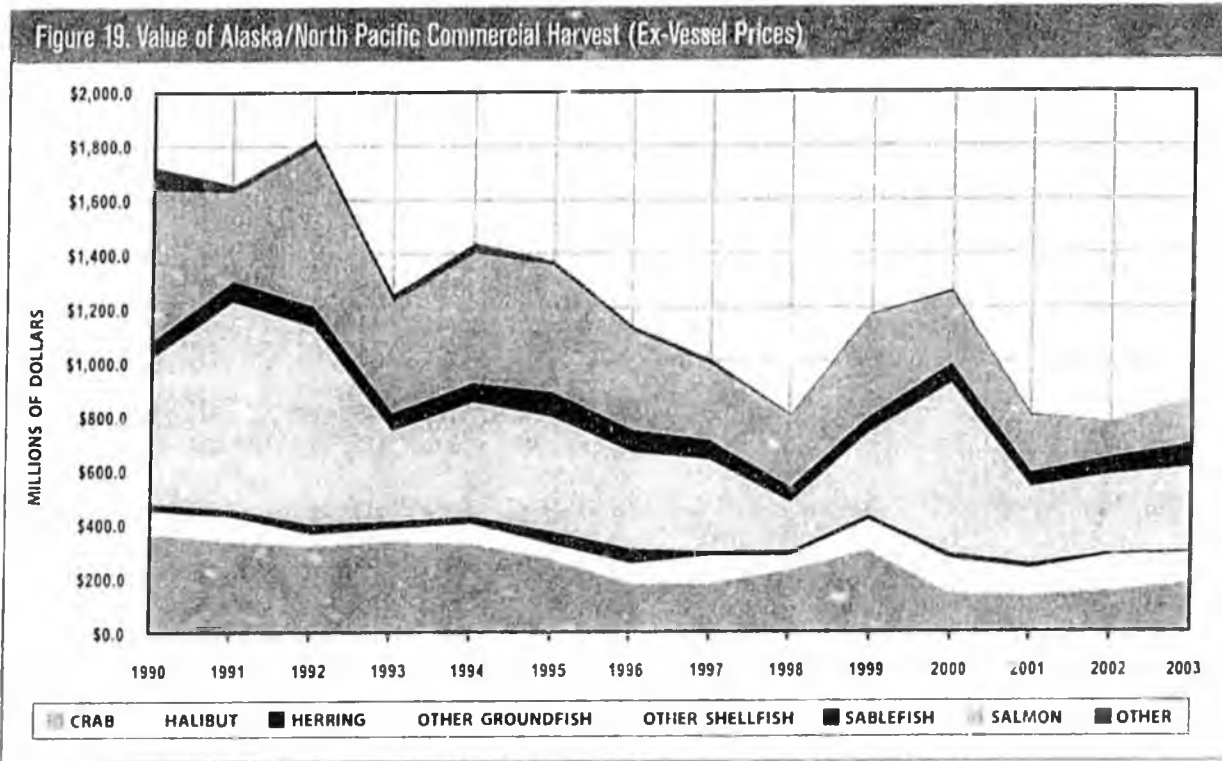
Only nine nations exceed the total seafood production volume harvested from Alaska and the North Pacific, about 3.8 billion pounds annually, more than half the U.S. total (Figure 17). In 2003, the ex-vessel value of Alaska seafood harvest (the amount paid to boats) was \$739 million, slightly more than half of its 1994 level of \$1.4 billion (Figure 18).



Source: Alaska Commercial Fisheries Entry Commission

Salmon remains vital to Alaskans because of the jobs it provides there and the lifestyle that goes with being a fisherman. The most rapid growth in the last few decades has been groundfish, including cod, pollock, sablefish, flounder, and other "bottomfish" used for products such as fish sticks, fish and chips, and surimi. In terms of volume, groundfish species now account for over three-fourths of the total (Figure 17).

While the ex-vessel value of the salmon catch has generally declined since the early 1990s, the Alaskan fishery "portfolio" has become more diversified in recent years.



Source: Alaska Commercial Fisheries Entry Commission

## SERVICES

Alaska is an important market for Puget Sound suppliers providing business, professional and personal services. Many of these services are exported for final use or consumption in Alaska. Others, notably education and health services, are "consumed" by Alaska purchasers while in the Puget Sound region. The export values shown below were derived by surveying the largest firms in each service industry sector regarding their share of total business receipts from Alaska clients. The responses were then weighted by the size of each firm within its sector. Impressive as these numbers are, they do not include the Alaska-based activity of Puget Sound firms' regional offices in Alaska, since such on-site sales do not meet the definition of an "export" from Puget Sound.

**Table 9. Puget Sound Services Exports, Jobs and Labor Earnings Related to Trade with Alaska, 1994 and 2003**

Sector	Value of Export (\$ Millions)		Jobs		Labor Earnings (\$ Millions)	
	1994	2003	1994	2003	1994	2003
Business Services	\$172.6	\$322.3	6,836	4,932	\$209.3	\$358.3
Health Services	\$51.9	\$120.9	3,924	5,686	\$138.8	\$229.3
Educational Services	\$10.5	\$23.5	295	617	\$5.4	\$21.3
Other Services	\$72.1	\$208.5	8,144	12,108	\$149.7	\$290.6
<b>TOTAL</b>	<b>\$307.1</b>	<b>\$675.3</b>	<b>19,199</b>	<b>23,343</b>	<b>\$503.2</b>	<b>\$899.5</b>

Note: Value of exports and labor earnings are in millions of current dollars. Other services include personal services and legal services.

### Business Services

The Puget Sound region is one of the nation's leading providers of business services. This sector includes advertising, engineering, architectural and surveying firms; testing laboratories; and accounting, financial and managerial consulting. The most rapidly growing Puget Sound-based service sector industry is software; worldwide export sales of software were estimated at \$8 billion in 2003. As a developed economy, Alaska's demands are proportional to its size for the full range of these business services.

### Education

For Alaskan youth and young adults, Washington is one of the "magnet" states for pursuing post-secondary education opportunities. A significant share of Alaskans traditionally attend higher education institutions outside of their state. However, 2003 signaled a turning point, when for the first time in Alaska's history, more than half of the state's college-bound students stayed home to study. Historically, Alaska has one of the highest out-migration rates in the nation, particularly among older youth and young adult age groups. A high percentage of those who leave to study at out-of-state post-secondary schools do not return to Alaska. (Hadland, 2004).

Given its population size, there is neither a law school nor a medical school in Alaska. For those Alaskans who seek to enter these professions, Seattle-based institutions are a leading source of educational opportunities. For instance, the University of Washington reserves up to 30 openings a year for medical students from Alaska. The Seattle University School of Law has a special

scholarship program for deserving Alaskans.

Schools in the Puget Sound region where Alaska students spend \$500,000 or more per year on tuition, fees and education related costs include:

- The Art Institute of Seattle
- Pacific Lutheran University
- Seattle Pacific University
- Seattle University
- University of Puget Sound
- University of Washington
- University of Washington Medical School
- Western Washington University

In 2003, an estimated \$23.5 million was spent by 1,066 Alaska students on Puget Sound based post-secondary education. These expenditures support 617 direct jobs in higher education institutions in Puget Sound.



The University of Washington Medical Center in Seattle. Photo by Mary Levin, University of Washington.

### **Health-Care Services**

As patients in hospitals and clinics, many Alaskans "consume" world-class health-care services in Puget Sound. Harborview Medical Center is the Pacific Northwest's only Level 1 burn and trauma center. Children's Hospital and Regional Medical Center in Seattle provides telemedicine programs and specialty clinics for critically ill and injured children throughout the Pacific Northwest and Alaska. These health-care services qualify as "exports," for which the non-resident customer travels to the source of supply. The estimated value of medical services purchased in 2003 by Alaska residents in Puget Sound is based on hospital charges and physicians' fees calculated for in-hospital and out-of-hospital services. In 2003, over 2,100 Alaskans were discharged from Puget Sound area hospitals. The value of exports in health-care services more than doubled between 1994 and 2003, but a portion of the increase was due to the escalating costs of health care.

**Table 10. Components of Puget Sound Health-Care Exports to Alaska, 1994 and 2003**

<i>Health-Care Component</i>	<i>Value of Exports (\$ Millions)</i>	
	<i>1994</i>	<i>2003</i>
Hospital Charges	\$36.1	\$84.1
Doctors' Fees (In-hospital)	\$14.4	\$33.5
Doctors' Fees (Out-hospital)	\$1.4	\$3.3
<b>TOTAL</b>	<b>\$51.9</b>	<b>\$120.9</b>

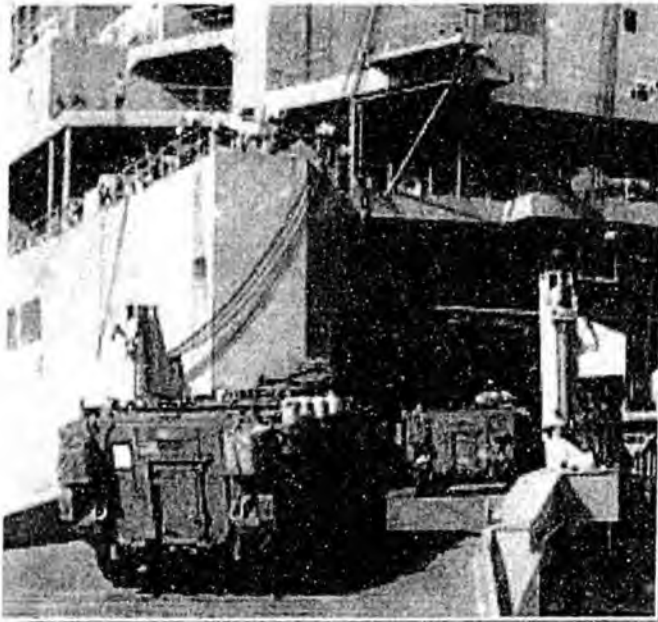
Alaskans' expenditures in Puget Sound hospitals and clinics directly support 2,086 health-care workers.

### **Other Services**

This category covers social and personal services, including recreation and amusement, and services that may be either business or personal, notably legal services. In 2003, service exports from these categories were valued at an estimated \$208.5 million, creating 12,108 jobs and \$290.6 million in labor earnings.

## Federal Government: Procurement in Alaska

Ever since the purchase of Alaska from Russia in 1867, the federal government has played an important role in the state economy. The U.S. government controls huge defense assets, owns almost two-thirds of the state's acreage, has a special relationship with Alaska's indigenous people and helps protect the state's vast 6,640-mile coastline.

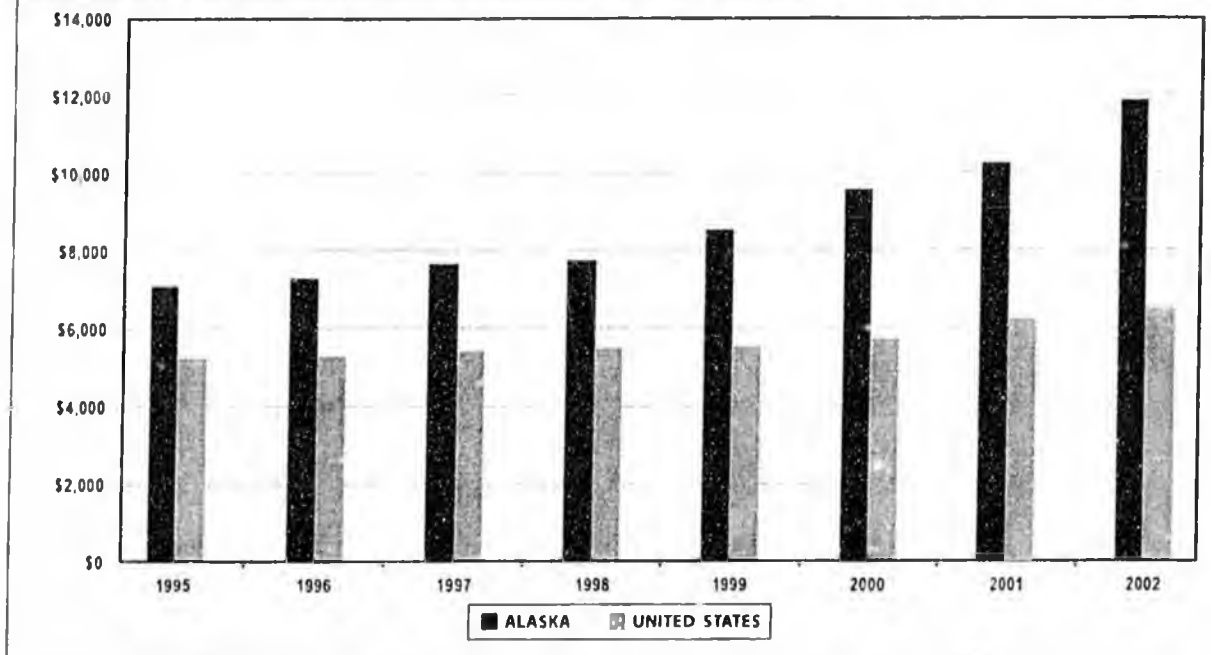


Army Stryker vehicles go on board ship at the Port of Tacoma.  
Photo by Kathleen Tomandi, Port of Tacoma.

On a per capita basis, Alaska ranks first in the nation in federal government spending. Annual federal spending is now at \$11,750 for every Alaskan, eighty percent more than the national per capita average of \$6,630 (Figure 20). While federal government expenditures have declined as a percentage of the Alaskan economy, federal spending still accounts for 38 percent of personal income for Alaskans. A recent study (Goldsmith, 2003) estimated that federal spending directly creates 38,000 jobs in Alaska, with an additional 58,000 indirect jobs. All told, federal spending supports one-third of the current employment base in Alaska (Goldsmith, 2003).

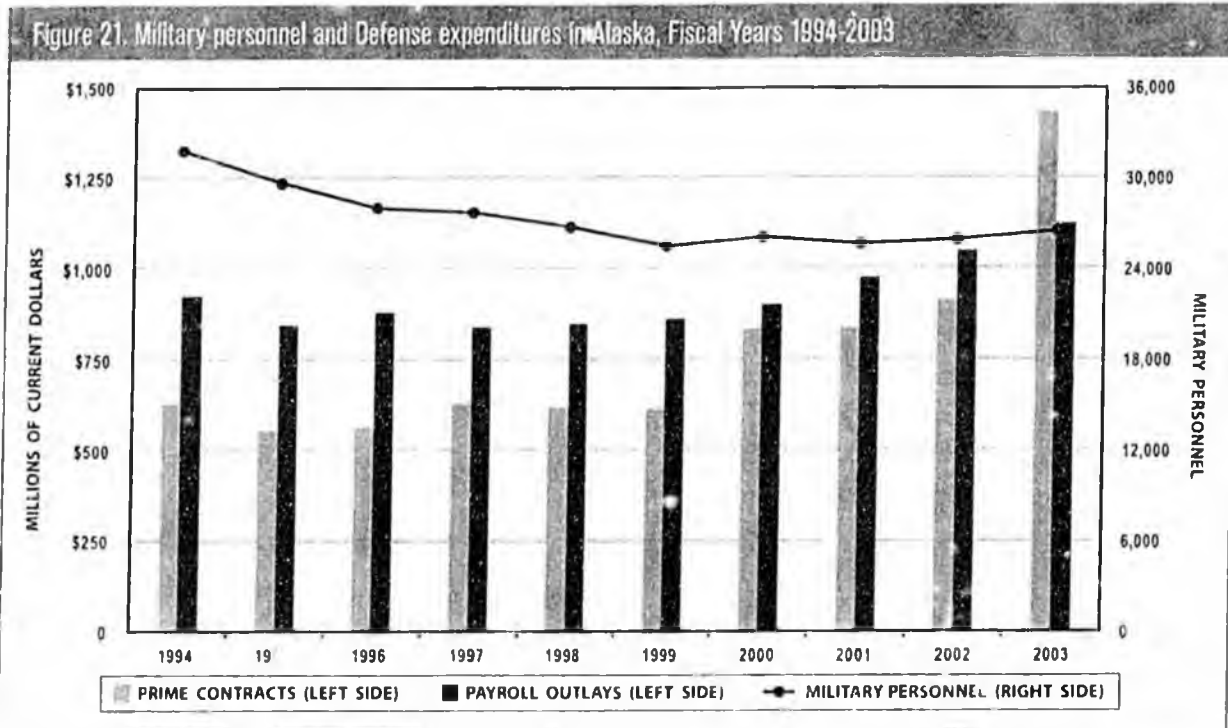
Trends during the 1990s indicated the federal government's role in the Alaska economy would likely diminish. Military bases were closed and downsized, and civilian agencies went through a period of retrenchment. Federal dollars spent in the state actually declined between 1993 and 1995. In current dollars, the decline was from \$4.632 billion in fiscal year 1993 to \$4.497 billion in 1994 to \$4.230 billion in 1995.

Figure 20. Federal Government Expenditures in Alaska and United States, Per Capita Basis, Fiscal Years 1995-2002



Source: U.S. Census Bureau, *Consolidated Federal Funds Report, various Fiscal Years*

But the trend has changed dramatically. Some economists view federal spending as the leading cause for Alaska's economic expansion. And this growth is not coming from the "traditional" conduits of spending. Neither military force levels nor civilian employee numbers have recovered, although they have stabilized and have seen some recent growth. Instead, federal money flowing to local and state governments has grown dramatically, particularly expenditures for procurement contracts from the U.S. Department of Defense (Figure 21).



Source: U.S. Department of Defense, Directorate for Information Operations and Reports. *Atlas and Data Abstract for the U.S. and Selected Areas*. Various Fiscal Years.

Increased federal government grants to local and state governments, tribes and businesses fund an incredible array of activities in Alaska. Grants provide money for building highways, airports, hospitals, and wastewater treatment facilities. They also help pay for health-care services, emergency relief services, legal services, tribal self governance, fisheries research and management, University of Alaska programs and the postal bypass subsidy. Further traditional benefits for Medicaid, welfare, food stamps and unemployment insurance also accrue to Alaskans.

Puget Sound suppliers and firms benefit from the increased federal spending. For many infrastructure projects, Puget Sound construction companies have been awarded procurement contracts — either directly or indirectly, as subcontractors. In 2003, the value of exports related to federal construction contracts in Alaska amounted to \$86 million, supporting 1,295 workers with \$47.1 million in wages and salaries in Puget Sound.

## MANUFACTURING

Despite Alaska's steady growth in manufacturing, more than one-fourth of Puget Sound exports to Alaska continue to fall into this category -- \$970 million in 2003. The value of exports of Puget Sound-manufactured goods has grown in current dollars. However, in constant dollars (removing inflation), the gains were modest: only 1.5 percent over the nine-year period. The largest component of manufacturing exports may also prove the most lasting: food products. Economies of scale created by a large consumer market and relative proximity to major agricultural regions provide a firm basis for Puget Sound to maintain its position as a long-term supplier of food products to Alaska.

The remainder of manufacturing is remarkably well-balanced across a range of products.. Apart from food products, several categories exceeded \$50 million in 2003 exports: petroleum products, fabricated and structural metals, electrical and industrial machinery (including instruments), wood products and furniture, transportation equipment, and chemicals.

**Table 11. Puget Sound Manufacturing Exports, Jobs and Earnings Related to Trade with Alaska, 1994 and 2003**

Sector	Value of Exports (\$ Millions)		Jobs		Labor Earnings (\$ Millions)	
	1994	2003	1994	2003	1994	2003
Food Products	\$157.4	\$162.5	811	780	\$25.5	\$31.5
Petroleum Products	\$135.7	\$124.7	155	162	\$8.6	\$11.2
Fabricated and Structural Metals	\$89.2	\$111.1	798	1,023	\$24.4	\$39.8
Machinery, Instruments	\$82.9	\$117.5	797	963	\$33.2	\$48.5
Wood Products and Furniture	\$72.5	\$89.1	914	742	\$28.1	\$31.2
Transportation Equipment	\$66.0	\$114.8	1,046	1,254	\$40.3	\$70.5
Chemicals	\$60.2	\$70.8	195	202	\$12.0	\$13.3
Pulp, Paper and Paperboard	\$48.2	\$44.1	257	251	\$11.1	\$12.0
Cement, Stone and Glass	\$45.1	\$63.4	525	464	\$19.2	\$24.2
Primary Metals	\$33.7	\$44.4	182	220	\$7.2	\$9.9
Other	\$25.9	\$28.7	1,016	912	\$26.6	\$34.8
<b>TOTAL</b>	<b>\$816.8</b>	<b>\$971.0</b>	<b>6,696</b>	<b>6,973</b>	<b>\$236.2</b>	<b>\$326.8</b>



Kenworth trucks are among the manufactured goods shipped north from Puget Sound. Photo courtesy of Kenworth Truck Company.

## **What's Ahead for the Alaska-Puget Sound Partnership?**

As always, the outlook for the Alaska-Puget Sound trade partnership depends on growth and change within the Alaska economy. As the Alaska market expands, with increased economic activity and population, trade between the two regions will likewise increase.

For the foreseeable future, Alaska's economy will continue to be dominated by the commodity-producing industries of petroleum, hard rock mining, and seafood, combined with tourism, federal spending, and international trade. Dependence on these industries means that the Alaska economy will be influenced by business cycles as commodity prices respond to world market conditions. Although the existence of such cycles is acknowledged, their timing is difficult to forecast.

In general, economic forecasters are cautiously upbeat about the economy in Alaska. Alaska has experienced 16 consecutive years of job growth and is expected to add two more years to that streak in 2004 and 2005.

The preferred Trans-Canada gas pipeline project would be substantially larger than was the Trans-Alaska oil pipeline. The overall economic benefits also would differ substantially, because many jobs and opportunities would be generated in Canada as well. Also, rail transport would probably be used more than in 1976 for moving materials – in part because the heavier steel can more easily be moved by rail and comply with load-limit issues. Also, while the Ports of Tacoma, Seattle and Anchorage would remain the key gateway ports, additional seaports would be selected that offer close proximity to Canada's rail system and direct shipments from Asia.

Federal government spending is difficult to forecast due to the conflicting demands of military security, the federal budget and politics. The recently announced global restructuring of U.S. military installations is expected to benefit Alaska and will likely result in expanded operations at Fort Richardson and Fort Wainwright. Additional forces will be coming to Alaska, adding billions of dollars to the economy. More soldiers will be stationed in Alaska, which after many years of decline is experiencing a rebound and currently has more than 26,000 military personnel.

Federal defense procurement, particularly for the missile defense program currently underway, will present enormous opportunities for contractors based in both Alaska and Puget Sound. A missile interceptor has been installed at Greely as part of the ground-based missile defense, and plans call for installing five others by the end of 2004 and 10 more by late 2005.

The U.S. Department of Defense has added the Port of Anchorage to a short list of strategic ports of departure. This will make it easier for Anchorage to obtain federal funding for a massive, \$300 million port expansion project that is currently underway. Tacoma is among other major ports that are designated as strategic, further strengthening the Puget Sound partnership and the potential for major shipments of military supplies.

In the near-term, Alaska will continue to be dependent on federal spending across multiple sources — project grant funding, formula grants, highway and transportation construction projects, benefits to individuals, and defense. Alaska's congressional delegation has been instrumental in procuring much of this funding because of the seniority it enjoys, but there remain legitimate concerns about the day of reckoning when the state will lose its political influence and the dollars that go with it.

Certainly, federal funding will continue to flow, regardless of who holds seats in the U.S. Congress. Yet, with more than two-thirds of the state's economic activity dependent on two major sectors -- petroleum and the federal government -- and with many of the goods and services for those sectors coming from Puget Sound companies, the state and its trading partners are particularly vulnerable.

## Conclusion

The Puget Sound-Alaska partnership has endured, expanded, and evolved over 100 years. One partner is a storehouse of resources, while the other provides goods and services. Beneath this highly visible activity, a "quiet connection" of basic economic ties has bound these partners. The value of goods and services that Puget Sound provides to meet the needs of Alaskans has increased steadily. At the same time, Alaska resources continue to play a vital role in the Puget Sound economy.

The geographic distances that separate Puget Sound and Alaska from the rest of the United States have sometimes been considered an economic disadvantage. Yet each of the partners continues to attract people from other parts of the country. In addition, each partner enjoys a unique geographic position on the Pacific Rim and access to China and other fast-growing Asian economies.

The fortunes of both partners have been strongly affected by a few major industries. Compared to the U.S. average, the economies of Puget Sound and Alaska are highly concentrated. But as each partner grows, there is a trend toward diversification and a broadening of the economic base. This process is affected by business cycles in the dominant industries and is not always smooth. Yet over time, both partners have shown remarkable resilience. Though oil production is currently on a declining path, Alaska is now in its sixteenth year of overall economic growth. And the Puget Sound region has begun once again to post net job gains after a protracted regional recession.

While the pace of growth and the timing of the cycles cannot be predicted precisely, the future strength of the partnership is certain. Its endurance is based on the vitality of both Alaska and Puget Sound, regions that have a remarkable range of comparative advantages based on resources, proximity, and economies of scale. These provide compelling logic that the two partners will continue to view each other as integral parts of their economic future.

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## **Appendix: Methods and Approach**

### ***The Puget Sound Input-Output Model***

The principal economic analysis tool used to measure Alaska-related impacts on export industries is the Puget Sound Input-Output (PSIO) model, which takes into account the direct impacts and the complex inter-industry connections in 62 sectors of the regional economy. The PSIO model is adapted from the Washington State Input-Output model, a series of state-sponsored studies of the statewide economy dating back to 1963 and most recently updated to the year 2003.

For resource-related industries, a variety of survey and analytical methods were used to supplement the model. The basis for running the model was a combination of survey and non-survey data gathered for this study from each sector.

As in the previous update, the Puget Sound region is defined as the counties of King, Kitsap, Pierce, Skagit, Snohomish, and Whatcom. In the initial 1985 study, seven smaller counties were also included: Clallam, Grays Harbor, Island, Jefferson, Mason, San Juan, and Thurston. The narrowing of the study area means that data on the Alaska-Puget Sound partnership have a tendency to understate real growth during the nine year (1985-1994) period. However, this is a relatively minor factor. The excluded counties contain about one-tenth the population of the included six counties and, with economies heavily dependent on natural resource-related industries and state government, their share of exports to Alaska is even lower than their relative population.

A detailed discussion of the analytical approach utilized in this study is included in the Puget Sound Input-Output model. This discussion presents the background on estimating Puget Sound shares of economic activity, use of the derived economic multipliers, and a detailed table of economic impacts.

Sources of data and survey results used in estimating Puget Sound exports are then presented. A discussion ensues on the selection of the base year; treatment of the Puget Sound fishing and petroleum sectors, the transportation services sectors, and the Alaskan cruise industry.

One of the most important uses of the input-output model is that it serves as the basis for estimating the multiplier or "ripple" effects of changes in exports (or other types of expenditures not basically dependent on changes within the regional economy) for one sector of the economy upon other sectors. Because the model takes into consideration the complex inter-industry connections in the regional economy, calculated impacts will include not only those people directly involved in producing goods and services for export, but also the indirect impacts, such as the increase in work and jobs in industries supplying direct-export businesses. It also includes impacts induced by the spending of incomes earned in export-related jobs.

In this study, research was focused on estimating the demand in Alaska for goods and services produced by businesses in the Puget Sound region. These include the profusion of output from manufacturing concerns in the region – food products, wood and paper products, machinery and metals, chemicals and refined petroleum, and so on. Also included is the whole range of professional and business services, including software, accounting, advertising, engineering, legal, and management consulting services. Because of its sparse population, northern climate, and relatively undeveloped industrial base, Alaska must import a large proportion of its food, consumer goods, and inputs necessary for production. By far, the largest portion – about 95 percent – of these goods travel to Alaska by water. Due to its geographical proximity to Alaska, and its status as a highly developed center of domestic and international transportation, Puget Sound's seaports are the starting point for the bulk of goods flowing to Alaska.

## ***Use of Economic Multipliers***

The multipliers used in this study are known as Type II multipliers. Although Type II multipliers are only one of several types of multipliers available, they are most commonly used in regional economic impact analysis. Type II multipliers measure the direct effects on a variable (in this case jobs and earnings) plus the indirect impacts that arise as the result of inter-industry linkages, and the impact induced by households spending income paid to them. This concept assumes that there is an association between industry output and household income, and a further association between household spending and income. Other types of multipliers may exclude household spending (Type I), or they may include state and local government spending (Type III). Type IV multipliers also include investment spending, on the assumption that this is directly proportional to demand for output. Types III and IV are generally larger than Type II and are generally considered more speculative.

The reader should be aware that there are many common misconceptions about multipliers. For instance, there is no such thing as "the" multiplier for an industry. For any industry, there are any number of multipliers depending upon the form in which the multiplier is expressed, the variable under consideration and other factors. The choice of unit can make the same multiplier look larger or smaller. Multipliers in static models (such as those in the Puget Sound Input-Output Model) are timeless. Production adjustments may take place in anticipation of changes in market demand, or in contrast, reaction time may lag resulting in delayed multiplier responses.

Prior studies (Conway, 1977; Chase, 1994) have shown that multipliers do change over time. There are several reasons why multiplier values change. First, technological changes and inventions of new products/processes alter input purchasing patterns. Second, relative price changes across commodities induce substitution of the relatively cheaper inputs for the more costly ones. Finally, changes in interregional and/or international trade patterns (due in part to changes in transportation costs and exchange rates) could substantially alter patterns of trade, and hence multiplier values.

## ***Estimating Puget Sound Shares of Washington State Economic Activity***

In order to calculate the extent of impacts of Alaska trade on the Puget Sound region, it is necessary to construct and apply a "shares model." This model contains estimates of the Puget Sound region's shares of the 62 sectors of the Washington State Input-Output model. "Shares" here refers to what proportion of the state's economic activity is found in the six-county geographic region of Puget Sound covered in this study. These six counties are King, Kitsap, Pierce, Skagit, Snohomish, and Whatcom. For most sectors of the economy, it was assumed that the regional share of employment in a particular sector would be proportional to the regional share of output in that sector. Data from the Washington State Employment Security Department (*Employment and Payrolls in Washington State by County and Industry*; confidential unpublished files by establishment), supplemented by published data from U.S. Bureau of Economic Analysis, were utilized to derive estimates of the six-county Puget Sound share of employment, and by inference, of output and impacts.

Although data reliability on agricultural employment has improved in recent years it remains impaired by the high number of subcategories of agricultural production with widely differing relationships of employment and output. Data contained in the *Washington State Agricultural Statistics, 2003*, published by the Washington State Department of Agriculture in the form of county or district shares of production for various agricultural commodities, was used to estimate the Puget Sound share of output in input-output sectors 1-4. For employment in rail transportation (input-output sector 44), data were utilized from the U.S. Bureau of Economic Analysis, supplemented by information from various regional labor economists with the Washington State Employment Security Department. The estimate of the Puget Sound share of the U.S. Postal Service (USPS) was provided by the Washington State Employment Security Department, supplemented by information provided by the USPS Seattle Regional Office.

The following table provides the estimates of the Puget Sound regional share of each of the 62 sectors of the input-output model. These were used in constructing a Puget Sound regional input-output model for the year 2003, which in turn was used to calculate the Puget Sound share of indirect jobs, earnings, and output.

**Table A-1. Puget Sound Shares of Washington State Economic Activity, 1994 and 2003**

<b>Input-Output</b>		<b>Industry Share (In Percents)</b>	
<b>No.</b>	<b>Sector Name</b>	<b>1994</b>	<b>2003</b>
1	Field and Seed Crops	3.0%	3.2%
2	Vegetable and Fruits	4.8%	3.9%
3	Livestock and Products	37.7%	38.3%
4	Other Agriculture	56.8%	56.7%
5	Fisheries	78.0%	81.1%
6	Forestry	18.6%	18.2%
7	Mining	29.2%	30.0%
8	Meat Products	47.3%	39.4%
9	Dairy Products	64.2%	67.6%
10	Canning and Preserving	38.7%	38.1%
11	Grain Mill Products	72.2%	67.9%
12	Beverages	47.5%	45.1%
13	Other Foods	68.0%	70.4%
14	Textiles	38.5%	46.4%
15	Apparel	75.6%	82.3%
16	Logging	25.5%	26.3%
17	Sawmills	46.4%	45.3%
18	Plywood	11.3%	16.6%
19	Other Wood Products	54.8%	59.3%
20	Furniture and Fixtures	77.0%	84.8%
21	Pulp Mills	45.3%	44.0%
22	Paper Mills	24.1%	24.1%
23	Paperboard, Other Paper	45.2%	50.3%
24	Printing and Publishing	73.9%	73.8%
25	Industrial Chemicals	39.2%	27.5%
26	Other Chemicals	73.4%	77.0%
27	Petroleum	98.7%	93.6%
28	Glass Products	88.2%	87.3%
29	Cement, Stone and Clay	62.9%	60.0%
30	Aluminum	22.4%	34.3%
31	Other Primary Metals	40.0%	38.8%

**Table A-1. Puget Sound Shares of Washington State Economic Activity, 1994 and 2003 (Continued)**

Input-Output		Industry Share (In Percents)	
No.	Sector Name	1994	2003
32	Structural Metal Products	58.4%	63.2%
33	Other Fabricated Metals	70.4%	72.5%
34	Industrial Machinery	57.8%	62.4%
35	Computer and Office Equipment	32.4%	58.4%
36	Electrical Machinery	58.4%	56.5%
37	Aerospace	98.9%	98.5%
38	Ship and Boat Building	92.6%	89.8%
39	Motor Vehicles	59.5%	54.4%
40	Instruments	85.1%	84.2%
41	Other Manufacturing	72.8%	67.8%
42	Highway Construction	54.1%	58.0%
43	Other Construction	65.8%	69.1%
44	Railroad Transportation	48.7%	53.7%
45	Local and Suburban Transportation	74.4%	77.1%
46	Motor Freight and Warehousing	63.9%	59.3%
47	U.S. Postal Service	67.7%	67.7%
48	Water Transportation	86.4%	86.6%
49	Air Transportation	91.2%	87.3%
50	Pipelines	74.8%	82.6%
51	Transportation Services	84.9%	88.8%
52	Electric Companies	43.6%	39.4%
53	Gas Companies	55.0%	47.3%
54	Other Utilities	61.3%	36.1%
55	Communications	74.1%	80.1%
56	Wholesale Trade	69.6%	71.3%
57	Eating and Drinking Places	64.7%	66.7%
58	Other Retail Trade	65.1%	65.2%
59	Finance, Insurance, and Real Estate	74.4%	74.9%
60	Business Services	85.2%	81.3%
61	Health Services	63.1%	62.2%
62	Other Services	65.1%	63.7%

### **Detailed Table of Economic Impacts**

Within the text of this report, the impacts in broad industrial categories have been presented. Table A-2 provides full detail of the output, jobs, and labor earnings impacts on the Puget Sound due to trade with Alaska for all 62 sectors of the economy. Column 2 in the table provides estimates of direct exports to Alaska from each of the 62 regional sectors. Columns 3 through 4 provide the direct impacts upon each sector in the Puget Sound economy of every sector involved in export trade with Alaska. Columns 5 through 7 give the total impacts: direct, indirect, and consumption-induced.

**Table A-2. Puget Sound Exports to Alaska, 2003**

<i>Puget Sound Input-Output Sector</i>	<i>Estimated Puget Sound Exports to Alaska (\$ Millions)</i>	<i>Puget Sound Direct Impact: Jobs</i>	<i>Puget Sound Direct Impact Earnings (\$ Millions)</i>	<i>Puget Sound Total (Dir. + Ind.) Impact: Output (\$ Millions)</i>	<i>Puget Sound Total (Dir. + Ind.) Impact: Jobs</i>	<i>Puget Sound Total (Dir. + Ind.) Impact Earnings (\$ Millions)</i>
1 Field and Seed Crops	\$0.6	5	\$0.2	\$1.2	9	\$0.3
2 Vegetables and Fruit	\$3.9	66	\$2.1	\$5.0	86	\$2.7
3 Livestock	\$6.6	31	\$1.4	\$37.7	154	\$7.0
4 Other Agriculture	\$2.3	44	\$1.3	\$5.3	97	\$3.0
5 Forestry	\$0.0	0	\$0.0	\$6.5	29	\$1.3
6 Fisheries	\$0.0	0	\$0.0	\$3.2	28	\$1.4
7 Mining	\$0.0	0	\$0.0	\$5.3	24	\$1.9
8 Meat Products	\$21.3	57	\$1.9	\$34.4	91	\$3.0
9 Dairy Products	\$35.0	61	\$3.1	\$57.3	82	\$4.1
10 Canning and Preserving	\$29.1	115	\$6.0	\$38.2	148	\$7.7
11 Grain Mill	\$11.1	19	\$0.8	\$22.4	39	\$1.7
12 Beverages	\$42.8	134	\$6.1	\$53.1	165	\$7.5
13 Other Foods	\$23.2	139	\$4.0	\$43.5	255	\$7.4
14 Textiles	\$5.8	46	\$1.7	\$6.2	4	\$1.8
15 Apparel	\$6.3	54	\$1.9	\$13.0	110	\$3.9
16 Logging	\$0.0	0	\$0.0	\$10.8	35	\$1.7
17 Sawmills	\$36.9	156	\$9.6	\$54.2	208	\$12.8
18 Plywood	\$2.7	17	\$0.6	\$3.1	19	\$0.7
19 Other Wood	\$33.0	249	\$8.5	\$36.7	270	\$9.2
20 Furniture	\$16.6	182	\$5.9	\$19.3	211	\$6.8
21 Pulp Mills	\$0.0	0	\$0.0	\$0.1	0	\$0.0
22 Paper Mills	\$11.4	33	\$2.0	\$18.1	34	\$2.4
23 Paperboard	\$32.7	61	\$4.4	\$54.2	217	\$2.5
24 Printing	\$4.4	40	\$1.6	\$48.5	434	\$17.3
25 Industrial Chemicals	\$55.5	33	\$2.2	\$67.2	39	\$2.5
26 Other Chemicals	\$15.3	103	\$6.8	\$24.8	163	\$10.8
27 Petroleum	\$124.7	52	\$3.6	\$398.9	162	\$11.2
28 Glass Products	\$4.6	32	\$1.5	\$13.1	89	\$4.3
29 Cement and Stone	\$58.7	331	\$17.5	\$69.5	375	\$19.9
30 Aluminum	\$0.2	1	\$0.0	\$3.0	12	\$0.7
31 Other Primary Metals	\$44.2	190	\$8.4	\$48.4	207	\$9.2
32 Structural Metals	\$81.2	666	\$26.5	\$84.8	686	\$27.3
33 Fabricated Metals	\$29.8	212	\$7.9	\$47.7	336	\$12.5
34 Industrial Machinery	\$48.6	335	\$14.2	\$61.9	417	\$17.7
35 Computer Equip	\$10.0	63	\$4.8	\$12.5	77	\$5.9
36 Electric Machinery	\$38.0	238	\$10.9	\$43.6	269	\$12.3
37 Aerospace	\$0.0	0	\$0.0	\$17.0	49	\$3.6
38 Motor Vehicles	\$4.4	13	\$0.8	\$9.0	26	\$1.7
39 Ship and Boat Building	\$110.4	1,056	\$58.4	\$123.6	1,180	\$65.3
40 Instruments	\$20.9	113	\$7.1	\$37.8	200	\$12.5

**Table A-2. Puget Sound Exports to Alaska, 2003 (Continued)**

<i>Puget Sound Input-Output Sector</i>	<i>Estimated Puget Sound Exports to Alaska (\$ Millions)</i>	<i>Puget Sound Direct Impact: Jobs</i>	<i>Puget Sound Direct Impact Earnings (\$ Millions)</i>	<i>Puget Sound Total (Dir. + Ind.) Impact: Output (\$ Millions)</i>	<i>Puget Sound Total (Dir. + Ind.) Impact: Jobs</i>	<i>Puget Sound Total (Dir. + Ind.) Impact Earnings (\$ Millions)</i>
41 Other Manufacture	\$12.1	129	\$4.7	\$30.5	319	\$11.7
42 Heavy Construction	\$0.0	0	\$0.0	\$0.2	2	\$0.1
43 Other Construction	\$86.0	1,295	\$47.1	\$131.9	1,968	\$71.6
44 Railroad Transport	\$0.0	0	\$0.0	\$4.6	29	\$2.3
45 Local Transport	\$0.0	0	\$0.0	\$11.3	254	\$8.3
46 Trucking	\$63.2	637	\$25.3	\$109.3	1,012	\$40.2
47 US Postal Service	\$12.5	192	\$10.0	\$24.5	377	\$19.5
48 Water Transport	\$819.2	3,029	\$210.3	\$910.2	3,108	\$211.6
49 Air Transport	\$570.6	4,275	\$195.8	\$600.8	4,390	\$201.1
50 Pipeline	\$0.0	0	\$0.0	\$0.7	2	\$0.1
51 Transport Services	\$37.7	385	\$20.7	\$76.5	777	\$41.9
52 Electric Companies	\$0.0	0	\$0.0	\$105.0	188	\$13.0
53 Gas Companies	\$0.0	0	\$0.0	\$27.3	44	\$2.9
54 Other Utilities	\$0.0	0	\$0.0	\$25.1	273	\$10.5
55 Communications	\$8.1	38	\$2.5	\$146.4	665	\$42.9
56 Wholesale Trade	\$242.0	1,858	\$95.9	\$422.3	3,112	\$160.6
57 Eating and Drinking	\$3.6	84	\$1.4	\$167.6	3,728	\$63.7
58 Other Retail Trade	\$183.9	3,665	\$97.3	\$512.6	9,436	\$250.6
59 FIRE	\$82.0	651	\$30.6	\$639.6	3,513	\$197.6
60 Business Services	\$322.3	2,931	\$212.9	\$597.6	4,932	\$358.3
61 Health Services	\$120.9	2,086	\$84.1	\$361.9	5,655	\$229.3
62 Other Services	\$232.0	6,092	\$149.3	\$570.1	12,725	\$311.9
<b>TOTAL</b>	<b>\$3,768.5</b>	<b>32,351</b>	<b>\$1,427.9</b>	<b>\$7,115.9</b>	<b>63,619</b>	<b>\$2,582.5</b>

Certain sectors have very small or no exports to Alaska. One that deserves clarification is construction. The output of the construction industry is by its nature not exportable, at least not according to the conventions of input-output analysis. Work done by Puget Sound-based construction firms outside the state is not considered an export under these conventions. However, estimation of the value of construction contracts fulfilled in Alaska by Puget Sound firms was made separately. The impacts for construction in the table are all indirect impacts, which represent construction work carried out in the Puget Sound region in support of other sectors' Alaska export activity.

### **Choice of Base Year**

Detailed economic information for the most current year -- 2003 -- was anticipated to be available while this study was in process. For some economic statistics, there is a considerable lag in receiving timely data. For instance, total tonnage of goods shipped to Alaska via Puget Sound ports was available for 2002 from the U.S. Army of Engineers, Waterborne Commerce Statistics Center. Although this was the most recent information available at the time the study began, it was determined that the industry had 2003 numbers, which were gathered by survey and used in this study.

For Alaska, 2003 was the sixteenth consecutive year of economic expansion; while in the Puget Sound region, 2003 signals the beginnings of an economic recovery after a prolonged recession.

### **Sources of Data**

A frequent problem in regional economic impact analyses is the lack of hard data. This study is not an exception, much of the analysis is based on estimates of the direct exports of goods and services for 62 sectors of the Puget Sound economy. The export estimates are based primarily on information gained through surveys -- via mail, facsimile, and telephone -- with establishments in the 62 sectors. The survey questionnaire asked firms to provide the following information for 2003: (1) total value of production or total revenues; (2) total employment; (3) total wages paid; and (4) portion of sales sold to Alaska. Table A-3 indicates the number of surveys sent and return rates for major categories.

**Table A-3. Survey of Puget Sound Firms**

Sector	Firms Surveyed	Surveys Returned	Rate of Return
Manufacturing	125	33	26.4%
Services	145	28	19.3%
Transportation	11	10	90.1%
<b>TOTAL</b>	<b>281</b>	<b>72</b>	<b>25.6%</b>

Survey information was supplemented by numerous sources from the federal government (e.g. *Census of Manufacturers; Census of Transportation, Communications, and Utilities; Census of Finance, Insurance, and Real Estate; U.S. Bureau of Economic Analysis Regional Economic Information System*); state government (Washington State Employment Security Department -- employment and wage by establishment confidential files); and the private sector (trade publications; trade associations; and conversations with industry experts).

### **Education**

For some services, the demanded services are not physically exported to Alaska; rather Alaskan residents travel to the Puget Sound region to study. An extensive survey was done of two- and four-year educational institutions in the Puget Sound region to determine the average annual number of Alaska residents enrolled. Using data supplied by the institutions for tuition and fees, and for average non-educational expenditures, an estimate was made of the total amount spent in 2003 by Alaska residents studying in the Puget Sound region. In 2003, 1,066 Alaskan residents were enrolled in Puget Sound institutions of higher learning. The estimated educational expenditures were \$23.5 million in 2003.

### **Health Services**

Another service not directly exported to Alaska is health-care services. A statewide data base was utilized to determine the total number of Alaska residents who sought hospital treatment in the six-county Puget Sound region during 2003 and how much they paid for these services. The Washington State Department of Health, Office of Hospital and Patient Data Systems, provided data on hospital charges as well as an average ratio for doctors' fees and hospital charges for patients treated in hospitals. From this was derived an estimate of the total amount spent for such fees by Alaskan residents. In addition, an estimate of the total value of physicians' services provided to Alaska patients not in hospitals. The sum of these three elements--hospital charges, physicians' fees in the hospital, and physicians' fees outside the hospital constituted the estimate of the value of medical services purchased in 2003 by Alaska residents in the Puget Sound.

### **The Transportation Services Sectors**

Exports of transportation services to Alaska refers to revenues earned by Puget Sound transportation companies shipping goods to Alaska. These exports were estimated based on information combined from a number of sources. Revenues by transport mode were obtained from the U.S. Department of Commerce, Bureau of the Census (*1992 Census of Transportation, Communications and Utilities*). Ratios of average revenues per worker and average revenues by ton were estimated based on census data with confidential employment files from the Washington State Employment Department. These revenues were estimated by transport mode (water, air, and land). In addition to freight revenues, impacts of water and air passenger travel between Puget Sound and Alaska were estimated.

A variety of information sources were utilized, in addition to a separate survey sent to 11 vessel and barge lines involved in waterborne transportation between the Puget Sound and Alaska. The transport modes analyzed for this study are listed in Table A-4.

**Table A-4. Transportation Services Sectors**

<b>Water Transport</b>
Freight (SIC 441, 442, 443, 444)
Passenger (SIC 4481, 4489)
Marine Cargo Handling (SIC 4491)
Towing and Tugboat Service (SIC 4492)
Water Transport Services, Nec (SIC 4499)
<b>Air Transport</b>
Freight (SIC 451, Part)
Passenger (SIC 451, Part)
<b>Arrangement of Transport of Freight and Cargo</b>
Arrangers of Freight and Cargo (SIC 473) - Includes Brokers, Freight Forwarders, Consolidators, and Shipping Agents
<b>Motor Freight Transport and Warehousing</b>
Warehousing (SIC 42)
Trucking, Except Local (SIC 4213)
Public Warehousing and Storage (SIC 422)

With regard to revenue, employment, and labor earnings by transport mode, the principal sources of information were the 1997 *Census of Transportation, Communications, and Utilities*; Washington State Employment Security Department, Employment and Wages (confidential files); and confidential memorandum from the Port of Tacoma and individual shippers. The latter two sources provided listings of other carriers (e.g., truckers), freight forwarders, consolidators, and warehousing operations engaged in the Alaska-Puget Sound trading relationship.

Revenue estimates per worker for each transport mode were first made from the Census, based on total employment for all companies engaged in the Alaska-Puget Sound trade. Since these estimates were first made for the year 1992 and updated for 1997, estimates were then made for 2003. Total revenues were subsequently adjusted based on services associated with only exports. Estimated revenues associated with transshipments and imports were not included as part of the trade with Alaska. Revenue estimates were cross-checked using additional information from the U.S. Department of Commerce -- comparison of value of exports at the port of export to the value of exports at the producing plant (f.o.b.). For waterborne trade, survey results supplemented the analysis.

Eleven vessel and barge lines that provide shipping services between Puget Sound and Alaska were surveyed regarding the total 2003 northbound and southbound tonnage (total and detailed by major commodity groupings) hauled between Puget Sound and Alaska. Of the 11 surveyed, 10 provided information (91 percent return rate with an estimated total coverage of 98 percent).

Detailed information on northbound tonnage hauled by major commodity was cross-checked with survey information obtained from manufacturers in the Puget Sound. The requirement here was to separate transshipments and goods produced elsewhere versus those goods manufactured in the Puget Sound.

### ***Treatment of the Fishing and Petroleum Sectors***

In the most recent statewide Input-Output study, the output of the Washington fisheries sector was measured by the value of the catch landed within state waters (including the 200 mile-extent along the coast). Consequently, the multipliers associated with that sector do not include the very considerable impacts of the Alaska fisheries. However, since more than 85 percent of the total harvest of the Puget Sound-based fleet comes from Alaska and the North Pacific, this study estimates the impacts on the Puget Sound economy of those distant waters fisheries. This was accomplished by using the Puget Sound Input-Output model to calculate the output, jobs, and earnings associated with the expenditures of the Puget Sound-based fleet fishing in the North Pacific for the output of Puget Sound industries.

A similar procedure was utilized for the petroleum refining sector in Puget Sound. Since 90 percent of the total crude oil inputs of the Puget Sound refining sector come from the North Slope, the impact analysis routine estimates the impacts on the Puget Sound economy related to that portion of Alaska crude oil inputs.

### ***Alaska Cruise Industry in Seattle***

Base information on the Alaska cruise industry was obtained from a Port of Seattle-sponsored report released while this study was in progress. Subsequent review of the report's coverage (John C. Martin Associates, 2004) resulted in supplemental information obtained from cruise operations, particularly their home administration offices based in Seattle.

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## Glossary of Terms

**Carrier.** The firm that physically transports the cargo. Carriers include steamship lines, trucking firms, railroads, and air carriers.

**Catcher/Processor.** A combination fishing and processing vessel that uses trawl nets to harvest fish and processes the catch on-board. The ability to immediately process groundfish at sea, rather than delivering the catch to shore-based processing plants, allows catcher-processors to produce higher-grade seafood products.

**c.i.f. Cost, insurance and freight.** A pricing term indicating the cost of the goods, insurance, and freight are included in the quoted price.

**Constant dollars (or "real" dollars).** Output values converted to a base price level (e.g., 2000), calculated by dividing current or actual dollars by a deflator. Use of constant dollars eliminates the effects of price changes between the year of measurement and the base year and allows calculation of real changes in output.

**Direct effects.** The economic activity during the first round of spending. For tourism, this involves the impacts on the tourism industries (businesses selling directly to tourists) themselves.

**Ex-vessel.** Refers to activities that occur when a commercial fishing boat lands or unloads a catch. For example, the price received by a captain for the catch is an ex-vessel price, the dollar value that commercial fishermen receive for their product once it leaves the fishing vessel. (Also called the dockside value).

**Freight forwarder.** Freight forwarders arrange for the transportation of goods in domestic and international trade. Principal activities include advising customers on shipping conditions, selecting the route and carriers for the shipment, arranging for all necessary transportation, booking space, preparing the documentation required for shipping, arranging insurance coverage, and arranging the payment for the shipment. Freight forwarders are regulated and licensed by the Federal Maritime Commission.

**Groundfish (also Bottomfish).** Types of fish that reside on the ocean floor. In the North Pacific, about a dozen species comprise the groundfish complex. They include pollock, Pacific cod, rockfish, yellowfin sole, and rock sole, typically harvested by catcher-processors and longliners.

**Impact analysis.** The process of estimating the impact of dollars from outside the region ("new dollars") on the region's economy. Impact analysis typically includes only the spending of visitors from outside the region.

**Individual fishing quotas (IFQs).** A market-based alternative to the "race for fish." Currently, this fishery management tool is used in the Alaska halibut and sablefish fisheries. Under an IFQ system, fishing privileges are conveyed to individual participants (vessels or fisherman) in the fishery. A fisherman's quota share represents a percentage of the Total Allowable Catch in the fishery and can be leased, sold or otherwise transferred. The harvest privileges can also be rescinded if the participant does not comply with federal fishing standards.

**Input-output (I-O) model.** An input-output model is a representation of the flows of economic activity between sectors within a region. The model captures what each business or sector must purchase from every other sector in order to produce a dollar's worth of goods or services. Using such a model, flows of economic activity associated with any change in spending may be traced either forwards (e.g., spending generates employee wages, which induces further spending) or backwards (e.g., visitor purchases of meals leads restaurants to purchase additional inputs -- groceries, utilities, etc.). Multipliers for a region may be derived from an input-output model of the region's economy.

**Longline:** Fishing method using a horizontal mainline to which weights and baited hooks are attached at regular intervals. The horizontal mainline is connected to the surface by floats. The mainline can extend from several hundred yards to several miles and may contain several hundred to several thousand baited hooks.

**Longliner:** A vessel specifically designed to catch fish using the longline fishing method.

**Magnuson-Stevens Act** The Magnuson-Stevens Fishery Conservation and Management Act was passed by Congress in 1976 with bipartisan sponsorship from Washington Sen. Warren Magnuson, a Democrat, and Alaska Sen. Ted Stevens, a Republican. It created a 200-mile federal fisheries zone and eight regional councils to oversee the U.S. fisheries. The councils operate under the authority of the U.S. Department of Commerce.

**Merchandise goods.** Export and import of goods—products, supplies, raw materials, wares, and commodities that are movable.

**Multipliers.** Multipliers capture the size of the secondary effects in a given region, generally as a ratio of the total change in economic activity in the region relative to the direct change. Multipliers may be expressed as ratios of sales, income or employment, or as ratios of total income or employment changes relative to direct sales. Multipliers express the degree of interdependency between sectors in a region's economy and therefore vary considerably across regions and sectors.

**Secondary effects** are the changes in economic activity from subsequent rounds of responding of tourism dollars. There are two types of secondary effects:

- **Indirect effects** are the changes in sales, income, or employment within the region in backward-linked industries supplying goods and services to tourism businesses. For example, the increased sales in linen supply firms resulting from more motel sales is an indirect effect of visitor spending.
- **Induced effects** are the increased sales within the region from household spending of the income earned in tourism and supporting industries. Employees in tourism and supporting industries spend the income they earn from tourism on housing, utilities, groceries, and other consumer goods and services. This generates sales, income, and employment throughout the region's economy.

**Service.** In contrast to a good; not embodied in a physical good and typically effects some change in another product, person, or institution.

**Shipper.** Firm or individual from whom the shipment is sent (i.e., the originator of the shipment).

**Stevedore.** A firm or individual who contracts to load or discharge a vessel's cargo. In order to perform his responsibilities, the stevedore employs "longshoremen," who perform the physical work of loading and unloading ships.

**TEU (Twenty-foot Equivalent Unit).** Used as the standard measure for the container carrying capacity in terms of an 8x8x20-ft. size container.

**Total effects.** In impact analysis, the sum of direct, indirect, and induced effects.

# DEWITT & DEWITT LLC

PO Box 34761  
Juneau, AK 99803-4761

February 10, 2007

The Honorable Bill Thomas  
Alaska State Legislature  
State Capitol Building  
Juneau, Alaska 99801-1182

RE: HJR 8

Dear Representative Thomas.

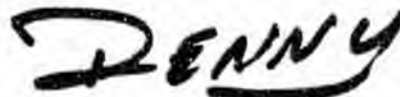
On behalf of the Alaska Chapter of the National Federation of Independent Business (NFIB), I wish to express our support for House Joint Resolution 8. The Alaska Chapter of the National Federation of Independent Business has 2,500 members, making it the largest small-business advocacy group in the state.

HJR 8 correctly requests the Washington State Legislature not adopt an added fee on all cargo containers shipped to and from Washington ports as proposed by Senate Bill 5207. Such a fee would significantly increase the transportation costs of most goods coming to Alaska. The added cost of exports from Alaska going through Washington ports would competitively disadvantage our products in the marketplace.

We have additional concerns that the fee is instead a tax and may well be unconstitutional in that it impedes interstate commerce, import/export activity and the movement of containerized cargo as governed by federal law and international treaty.

NFIB appreciates your willingness to call this issue to the attention of Alaska's State Legislature and our Congressional Delegation. The negative effects of such an increase in transportation costs would have a significantly negative impact on both businesses and consumers in Alaska.

Sincerely Yours,



Dennis L. DeWitt  
State Director  
National Federation of Independent Business

cc: House Transportation Committee  
House Labor & Commerce Committee

To the Members of the California State Senate:

I am returning Senate Bill 927 without my signature.

Improving the quality of life for all Californians through congestion relief and environmental improvement has been one of my top priorities as evidenced by the introduction of my Strategic Growth Plan resulting in the enactment of Senate Bill 1266 (Chapter 25, 2006).

Senate Bill 1266 (Chapter 25, 2006) is the largest transportation and air quality bond in the history of the United States. It provides \$1 billion in new funding to improve air quality in California which will directly benefit the communities in and around the Los Angeles and Long Beach Ports. Senate Bill 1266 also provides \$1 billion to address port mitigation issues, \$2.1 billion for trade infrastructure and \$100 million in port security funding. This is in addition to the \$140 million annually for air quality mitigation contained in Assembly Bill 923 (Chapter 707, 2004) which I sponsored and signed.

Although the policy objectives of Senate Bill 927, to develop more secure ports, congestion relief and environmental mitigation, are laudable, this measure is flawed in its construction, application, lack of accountability and failure to coordinate with other public and private financing sources ignoring opportunities to leverage additional funding.

Senate Bill 927 provides no mechanism for the usage of the fees collected to favorably leverage the billions of dollars in available funding to develop public private partnerships. Although SB 927 does generate funds, if done in a more coordinated fashion with the public and private sector, funding for additional congestion relief and mitigation could be increased geometrically. Additionally, this measure is drafted to include only two ports and applies only to goods shipped in containers, ignoring all other forms of shipping and ports of entry.

Public safety is and has been my top priority which includes increasing the security at all California ports. My Office of Homeland Security and Emergency Services has aggressively worked with the U.S. Office of Homeland Security and all our local counties and cities to support them as they develop their local plans for port security and identify their needs. Over 127 million dollars has been awarded and allocated on a competitive basis to California ports for security. These grants are being used for port security training, communications equipment, cameras, lighting underwater surveillance and protective equipment for port first responders. We have an additional 100 million dollars included in the strategic growth plan specifically for port security. Additionally, we are working with the U.S. Department of Homeland Security on their just announced award investing over 1 billion dollars on radiological and nuclear detection capabilities.

As Governor, I have traveled to both China and Japan working to improve our trading relationships with these nations – trade that includes both imports and exports. It is very important that any measure that increases fees that impact exporters not have the

unintended consequence of negatively impacting the sale and delivery of goods grown and manufactured in California. SB 927, unfortunately could negatively impact these exports as well.

Finally, my goods movement task force is developing a comprehensive report that will provide more thorough and strategic direction and insight on what the best options are to address goods movement and port related challenges. This report will be available by the end of this year.

Sincerely,  
Arnold Schwarzenegger



September 6, 2006

The Honorable Arnold Schwarzenegger  
Governor  
State Capitol Building  
Sacramento, CA 95814

Dear Governor Schwarzenegger:

I am writing on behalf of the member companies of the American Apparel & Footwear Association (AAFA)--the national association representing apparel, footwear and other sewn products companies, and their suppliers, which compete in the global market--to express our concerns about SB. 927, a bill that would impose fees on cargo interests to pay for a variety of port security, pollution mitigation and highway infrastructure programs in the state of California. We believe this bill is seriously flawed, and we would hope that you recognize, in particular, the potential violations of the U.S. constitution posed by this legislation. This bill passed both the Assembly and the Senate last week. We urge you to veto SB 927.

***Port Infrastructure Has Traditionally Been Privately Financed:*** SB 927 is designed, in part, to provide funding for port security infrastructure within California's ports. However, California's international gateway ports operate as landlords for terminal operations that pay rent and fees commensurate with port facility infrastructure. Ports raise their tariffs to pay for normal business operating expenses such as infrastructure, pollution mitigation and security programs. Terminal operators themselves make investments to meet these mandates as well, and pass the costs on to the carriers that call at the ports. In the end, shippers, including AAFA member companies, pay these added expenses through higher terminal use fees and other line items included in our freight contract with ocean carriers. We urge you to oppose government mandates that levy container fees and instead support the existing private sector financing mechanism to pay for infrastructure, pollution mitigation and port security by vetoing SB 927.

***Container Taxes Are Unconstitutional and Violate International Trade Law.*** The State of California cannot legally mandate the collection of fees on international commerce to fund programs such as highway infrastructure, port security or pollution abatement without facing an almost certain challenge in federal court. Other fees related to international cargo and transportation, such as the Harbor Maintenance Fee imposed by the federal government, have been struck down as unconstitutional because they impede interstate commerce. Because many of the containers moving through California ports are moving on to other states, California would have a very difficult time making a container fee stand up in court.

***Government imposed container fees could prove detrimental to the health of the California economy.***

The California government is not in the business of moving freight and does not possess intimate knowledge of the true costs of installing security fences, building cranes and purchasing low-sulfur diesel fuel. A fee levied on cargo owners, including AAFA member companies, to pay for these projects will surely endure well after the cost of installing fences and building cranes have been absorbed, and it will cost us much more than private financing of the same projects.

Government mandated container fees will only place California's seaports at a competitive disadvantage with other West Coast container ports and planned facilities in Mexico and Canada. While the fee may appear minimal, the fact is that these fees will be imposed on top of other private-sector charges related to infrastructure, pollution abatement and security. When coupled with the congestion problems faced in Southern California, it is clear that cargo owners already have many incentives to move freight through other ports, especially in the Pacific Northwest. Indeed, some of our industry partners are making large investments in other alternative ports.

In closing, we again urge you to veto SB 927. Container fees called for in the bill are not necessary to fund internal port infrastructure or port security. They are inappropriate to fund other projects outside the specific purview of the ports, and they will very likely embroil the state in court and international battles that will ultimately prove expensive over the long run.

Thank you for your time and consideration in this matter.

Sincerely,



Kevin M. Burke  
President & CEO

CC: Sunne McPeake, Secretary, Bureau of Business, Transportation and Housing Agency  
Michael Genest, Director, Department of Finance



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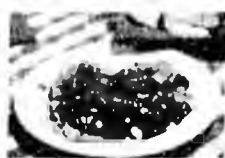
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## In Depth/Perspective

### How Long Beach City Hall Quietly Worked, Or Let Others Work, To Skew Or Kill Port-Related Homeland Security Legislation

#### Introductory Perspective

(Sept. 10, 2006) -- The 9/11 attacks are not part of the past. They are part of the present because those who attacked us once are working to attack us again.

Those attacks will kill as many of us and our families, and inflict as much damage on our country, as those in government will allow.

As the fifth anniversary of 9/11 approaches, government and industry officials say they're working to prevent another attack. Many surely are...and with success thus far.

But the record indicates that public officials and entities of the City of Long Beach -- California's fifth largest city, operating part of the nation's largest port complex -- failed to support, and in some cases oversaw spending public money that helped obstruct, efforts to provide the public and the Port with resources for greater security.

Those decisions were made behind closed doors, without public discussion or openly voted actions by City of Long Beach governing bodies...despite California's "open meetings" law.



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The actions affected three key pieces of legislation:

- **HR 494 by Cong. Dana Rohrabacher (R., HB-LB-PV), which provided for locally decided, industry paid homeland security container fees.** The Port of LB's Washington, DC lobbyist publicly took credit for helping kill the bill, an action executed without a public vote on that policy by LB's Board of Harbor Commissioners or the LB City Council.
- **SR 760 (renumbered SB 927) by State Senator Alan Lowenthal (D., LB-SP-PV), endorsed by the City of LB with the Port publicly neutral.** This legislation passed both houses of the state legislature and as we post awaits the Governor's approval or veto. If approved, it will almost certainly face an industry court challenge because the Port of LB's lobbyist helped kill the federal bill (above) which could have moored salient legal issues (at minimum toward the security aspects of the Lowenthal bill). Industry interests are now urging a veto by Governor, citing the federal issues that the Rohrabacher bill (defeated with help from the Port of LB's lobbyist) would have cured.
- **HR 4954, federal legislation labeled by supporters as the "SAFE Port" Act.** The House version of the bill passed this spring and is set for debate in the Senate in the coming days. While the measure was pending in the House, the Port of LB hosted a meeting with key House members, giving LB and L.A. Port officialdom an opportunity to influence those guiding the bill's provisions. Most LB elected officials were kept out of the loop and (with few

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exceptions) have remained mute.

Meanwhile, the "American Ass'n of Port Authorities," a lobbying group in which the Ports of LB and L.A. are members, worked to defeat a House amendment to the "SAFE Port" bill (failed 202-222) that would have required the inspection of all incoming cargo containers.

On Monday September 11, 2006 the U.S. Senate is scheduled to take up its version of the SAFE Port Act. The Senate version of the bill (subject to amendments) offers LB residents significantly less than what Cong. Rohrabacher proposed regarding local authority on container fees in 2005 and 202 House Democrats voted to support regarding the 100% inspection on incoming cargo containers in May 2006.

[Current Senate summary text]

**Section 121: Domestic radiation detection and imaging.** Requires the [Homeland Security] Secretary to develop a strategy for deployment of radiation detection capabilities and ensures that by December 2007, all containers entering the U.S., through the busiest 22 seaports, shall be examined for radiation. Requires DHS to submit a report of the strategic plan developed and to implement the strategy nationwide within three years. Requires DHS to submit a separate plan for the development of equipment to detect WMD threats at all U.S. ports of entry.

**Section 122: Port security user fee study.** Requires DHS to study the need for and feasibility of oceanborne and port-related transportation security user fees to be collected for funding port security improvements. Requires DHS to submit a report detailing the results of the study,

analysis of current customs fees and duties collected that are dedicated to security, comparison of comparable fees imposed in ports of Canada and Mexico, assessment of the impact on competitiveness of U.S. ports, and recommendations based on findings.

As we post on September 10, 2006, the City of Long Beach's elected City Council have yet to take a public position on these matters. Until they do, CA's fifth largest city will not be part of the national debate or discussion on these issues...leaving the field to special interests and their lobbyists.

*LBReport.com* reported these stories in real time as they happened. We will continue reporting these issues in detail, because we believe they are of local and national importance...not just on the 9/11 anniversary, but beyond.

### **Killing federal legislation to give local ports clear power to levy security-related container fee**

On August 8, 2005, the Port of LB's senior Washington, D.C. lobbyist, E. Del Smith, publicly indicated to LB's Board of Harbor



Commissioners that he had helped defeat legislation, authored by LB area Congressman Dana Rohrabacher (R., HB-LB-PV), that would have neutralized problematic federal arguments to local port authorities levying a security-related fee on containers.

"There has been an effort to increase container fees, a piece of legislation that we helped defeat just recently," Mr. Smith reported.



Mr. Smith's remarkable statement drew no public response from Harbor Commissioners. To our knowledge, the Port's non-

elected (Mayor chosen, Council approved) governing body had not previously agendized, or publicly discussed or publicly voted to oppose the legislation.

Congressman Rohrabacher, whose district includes the Ports of LB and L.A., had for a second time introduced a bill (HR 494) to add verbiage to an existing federal law that lets non-federal interests (Ports) levy harbor fees for specified purposes. Rohrabacher's legislation would have permitted, but not required, Ports to put fees on containers fees to help fund infrastructure and security items, arguably easing the cost for taxpayers.

On August 9, one day after *LBReport.com* reported that Port lobbyist Smith took credit for helping kill the bill, he reiterated and defended that position before the LB City Council. City management, with Council approval, also retains Smith to advocate the City's interests in Washington, D.C.

The Rohrabacher container fee measure would have neutralized a number of problematic federal legal issues regarding a state container fee bill (SB 760 by State Senator Alan Lowenthal). The

LB City Council had endorsed Lowenthal's bill...and evenue from it would be used in part for port security purposes. Killing Rohrabacher's bill also ran counter to City Hall's frequently stated principle of local control (it would have increased local control by enabling a locally-decided security related container fee).

8th district Councilwoman Rae Gabelich raised these matters with lobbyist Smith:

**Councilwoman Rae Gabelich:** [to Mr. Smith]...You reportedly said yesterday in your presentation to the Harbor Commission, that "there has been an effort to increase container fees, a piece of legislation that we helped defeat just recently." Yet that was part of the 710 Oversight Recommendations to use those fees for local environmental protection. And so my question to you is how can you serve two masters? How do you decide when you go to represent a bill, whose position takes priority?

**Mr. Smith:** ...Our job is to work with the feasibility of a bill that we have found or been directed to execute. No conflict of interest between the Port and the City. We helped defeat the bill because the bill was ill-drafted. It was never gonna pass because it would have had to have the concurrence of all the seaports in the United States. There are already 125 fees on port already, taxes, the Congress would have never allowed this.

And most of all, we were concerned in our office that, forget the Port and the City, the state of California would have feasibly been able to dip down, levy a fee on a container and take the money back to Sacramento.

And it was with those factors that we joined the Port industry in defeating the bill. I'm hoping this answers your question, perhaps it doesn't.

...

**Mr. Smith:** [after intervening colloquy]...I want you to hear from my colleague Sante Esposito who of course used to be with the Committee of Congress and wrote these bills...

**Mr. Esposito:** In legislation the devil's in the details and Del is absolutely right. This particular issue was opposed by the administration, opposed by OMB, opposed by the American Port Association and opposed by the authorizing committee. The proposal would have imposed a fee but then made that money available to the states to decide how they wanted to spend it and I don't think that's what any port wants to have happen.

That doesn't necessarily mean that the container fee issue, approached in a different way, wouldn't work but this particular proposal would not work, and it was defeated in two Congresses overwhelmingly on a bipartisan basis.

**Councilwoman Gabelich:** You understand that the issue is that we've got to protect the communities that line the freeways that serve the Port and there isn't any money. So we have to find a way to do that, and so maybe with your help we can put something better together...

A month earlier, without audible or visible support from the City of Long Beach, and with the quiet opposition of the Port of LB's lobbyists, the Rohrabacher bill reached the House floor. It held the key to removing federal impediments to the security aspects of the city-supported Lowenthal bill. It failed on a 111-310 vote.

Among local members of Congress, Ed Royce

(R., El Dorado-OC) and Loretta Sanchez (OC) voted "yes;" Juanita Millender-McDonald (D., Carson-LB) and Linda Sanchez (D., Lakewood) voted "no."

Below, from the *Congressional Record* are some excerpts of what took place on the House floor:

***Congressional Record, House of Representatives, July 14, 2005***

Mr. ROHRABACHER ...I rise to offer an amendment to H.R. 2864 that will expand the scope of section 208 in the Water Resources Development Act of 1986. My amendment will allow our ports to levy a fee on containers and use that fee to pay for security and infrastructure at the ports.

The Rohrabacher amendment will facilitate the effort to modernize and secure American ports. In my district, the ports of Long Beach and Los Angeles handle approximately 44 percent of all of the goods delivered to American shores, yet they are in constant need of revenue for facilities, improvements and upgrades to roads and bridges and rails.

Our marine terminals are invaluable commerce infrastructure, not only to our country but also for the many foreign manufacturers who sell primarily in the U.S. market.

This is the portal through which foreign manufacturers deliver their goods to our markets. Yet these manufacturers provide almost none of the costs of operation or upkeep of these vital assets. This system, as it currently operates, is a subsidy to foreign manufacturers, paid by the American taxpayer, concealing the true cost of imported goods. What we have here is all backwards. What we are in effect doing, as the system works, is putting a tariff on

products that are made in America.

Section 208 of WRDA currently allows ports to charge fees on tonnage and use those fees to fund infrastructure improvements. This section is hardly, if ever, invoked by the ports to raise funds due to the fact that it is complicated to collect and tends to be too unwieldy to be used effectively.

My amendment allows the ports to use a simpler and more efficient method: Fees on containers. The market-based fee in my amendment is simple to implement and to track, should be more widely used to raise funds for port projects. My amendment will also permit these fees to be used for homeland security projects at the ports, as well as infrastructure.

And let us be frank, the security threats that emanate from our ports come from foreign cargo. Why are we paying for their threat? If they want access to our markets, overseas manufacturers should pay the cost to ensure the safety of their deliveries. For too long the funding of marine terminals has been a one-way street with the American taxpayer footing the bill for the factory owners of Shanghai, Beijing and Macau while American manufacturers have been subsidizing their own competition.

Our port facilities should have the freedom to levy a market-based container fee which will provide new revenue and make our system more equitable to the American taxpayer and American manufacturers. The Rohrabacher amendment is the most efficient way to achieve these goals. The Rohrabacher amendment says we are on the side of the American taxpayer, and those people who run overseas to manufacture in China and elsewhere should be paying their part of the cost to make sure that that system, our port system, is working.

I would expect that people on both sides of the aisle would be supporting this. Unfortunately, our port systems, our ports, the people who run them, would rather come to the American taxpayer and get stipends from us rather than asking for a just fee to those manufacturers in China to pay for some of the costs that are required to ship their goods through our ports.

This is an American versus foreign vote here. Whose side are we on? Who is going to pay the bill? Right now if our people go overseas and build their manufacturing plants, we end up subsidizing that by permitting them low-cost ways of getting their goods right into our market and undercutting the American producers who stayed behind to hire American people.

I would ask people on both sides of the aisle to seriously consider this. Do not listen to the ports who simply want more taxpayer subsidies. Let us let the people who use this system, the foreign manufacturers, pay their fair share.

Mr. Chairman, I reserve the balance of my time.

Mr. DUNCAN. Mr. Chairman, I yield myself such time as I may consume.

The gentleman from California is one of the best friends I have in this Congress, and I certainly have great admiration and respect for him, and I sympathize with everything that he has just said; but I must regretfully state the position of the committee at this point, which is in opposition to this amendment.

The civil works program of the Army Corps of Engineers provides Federal assistance for dredging entrance channels and harbors and the Department of Homeland Security now offers grants for

security projects.

But, generally, capital improvements to port infrastructure are a non-Federal responsibility. The gentleman's amendment would permit a non-Federal interest, which could be the port authority or the State generally, to collect a fee per container that moves through the harbor and to use those funds for security purposes or for infrastructure projects within the port or any transportation infrastructure outside the harbor.

First, if the goal is to help ports, this amendment is unnecessary. Ports can already charge fees for services under the authority of section 208 of the Water Resources Development Act of 1986, which they can use to help them with the cost of security and port infrastructure.

Second, this amendment goes too far by allowing the collected funds to be used for transportation projects outside the port. This could mean potentially a State fee paid by shippers of containers at ports being used to pay for highway and rail projects elsewhere in the State. This is why the American Association of Port Authorities and even the gentleman's home port of LA/Long Beach oppose this amendment.

The Subcommittee on Water Resources and Environment held a hearing on this bill in November 2003. The American Association of Port Authorities, the Waterfront Coalition, and the World Shipping Council all testified in opposition to this proposal.

This amendment is the same as the amendment the gentleman from California brought to the House floor last Congress. It was defeated by a vote of 359-65. The committee believes that the ports can and

should charge whatever fees they believe are necessary to cover their security needs and infrastructure projects. They have the authority to do that now, and Congress should not dictate how they make this business decision.

I can assure the gentleman that I would like to work with him on some of the broader section 208 issues to see if we can better address his very legitimate concerns. We certainly sympathize with the gentleman's amendment. The gentleman's amendment is well-intentioned, but at this point the committee position is to urge our colleagues to oppose this amendment.

...[A number of Congressmembers speak in opposition to the bill]...

Mr. ROHRABACHER . Mr. Chairman, I yield myself the balance of my time.

The establishment has set up a system that we have built a Frankenstein monster in China by ensuring that jobs and manufacturing are going to China. I do not know why that is, I think that was a horrible decision, but it is time for us to start backing away from that policy. The most important way to start backing away from the policy of taking American jobs and shipping them to China, building the economic strength of China, the first step to take is to make sure that those people who go to China to manufacture are paying the cost of shipping their goods into America's markets rather than having the taxpayer provide that for them at the expense of our own manufacturers.

I would ask people on both sides of the aisle, let us turn around this policy, change the basic policy on China, vote "yes" on the Rohrabacher amendment.

The Acting CHAIRMAN (Mr. *Simpson*).

The question is on the amendment offered by the gentleman from California (Mr. Rohrabacher ).

The question was taken; and the Acting Chairman announced that the noes appeared to have it.

Mr. ROHRABACHER . Mr. Chairman, ' demand a recorded vote...

**FINAL VOTE RESULTS FOR ROLL CALL**

**376**

(Republicans in roman; Democrats in *italic*; Independents underlined)

**H R 2864** RECORDED VOTE 14-Jul-2005 2:11 PM

**AUTHOR(S):** Rohrabacher of California Amendment

**QUESTION:** On Agreeing to the Amendment

	Ayes	Noes	PRES	NV
Republican	57	167		6
Democratic	53	145		6
Independent	1			
<b>TOTALS</b>	<b>111</b>	<b>310</b>		<b>12</b>

---- AYES 111 ---

<i>Abercrombie</i>	Gutknecht	<i>Napolitano</i>
Akin	<i>Harman</i>	<i>Olve</i>
Bachus	Hayworth	Otte
<i>Baldwin</i>	Hefley	Paul
<i>Barrow</i>	Herger	Pence
Bartlett (MD)	<i>Herseth</i>	<i>Peterson (MN)</i>
Bono	<i>Hinchey</i>	Petri
<i>Brown (OH)</i>	<i>Hooley</i>	Pitts
Burgess	Hostettler	Pombo
Burton (IN)	Hunter	Renzi
<i>Butterfield</i>	Issa	Rogers (MI)
Buyer	Istook	Rohrabacher
Calvert	Johnson, Sam	Royce

<i>Case</i>	<i>Jones (NC)</i>	<i>Ryan (OH)</i>
<i>Coble</i>	<i>Kaptur</i>	<i>Ryan (WI)</i>
<i>Costa</i>	<i>Kennedy (RI)</i>	<i>Sabo</i>
<i>Costello</i>	<i>Kildee</i>	<i>Sanchez.</i>
<i>DeFazio</i>	<i>King (IA)</i>	<i>Loretta</i>
<i>DeGette</i>	<i>Kucinich</i>	<i>Sanders</i>
<i>Delahunt</i>	<i>Langevin</i>	<i>Schwarz (MI)</i>
<i>DeLauro</i>	<i>Larson (CT)</i>	<i>Scott (GA)</i>
<i>Dingell</i>	<i>Lungren,</i>	<i>Sensenbrenner</i>
<i>Doolittle</i>	<i>Daniel E.</i>	<i>Shadegg</i>
<i>Doyle</i>	<i>Maloney</i>	<i>Sherman</i>
<i>Duncan</i>	<i>Marshall</i>	<i>Sherwood</i>
<i>Emerson</i>	<i>McCollum</i>	<i>Shuster</i>
<i>Engel</i>	<i>(MN)</i>	<i>Slaughter</i>
<i>Evans</i>	<i>McCotter</i>	<i>Sodrel</i>
<i>Farr</i>	<i>McDermott</i>	<i>Stearns</i>
<i>Flake</i>	<i>McGovern</i>	<i>Strickland</i>
<i>Fortenberry</i>	<i>McHenry</i>	<i>Tancredo</i>
<i>Frank (MA)</i>	<i>McKinney</i>	<i>Taylor (MS)</i>
<i>Franks (AZ)</i>	<i>McNulty</i>	<i>Taylor (NC)</i>
<i>Gohmert</i>	<i>Meehan</i>	<i>Udall (CO)</i>
<i>Goode</i>	<i>Mica</i>	<i>Udall (NM)</i>
<i>Goodlatte</i>	<i>Moore (WI)</i>	<i>Walsh</i>
<i>Green (WI)</i>	<i>Murtha</i>	<i>Watt</i>
	<i>Myrick</i>	<i>Wilson (SC)</i>
	<i>Nadler</i>	

## ---- NOES 310 ----

<i>Ackerman</i>	<i>Gibbons</i>	<i>Nunes</i>
<i>Aderholt</i>	<i>Gilchrest</i>	<i>Nussle</i>
<i>Alexander</i>	<i>Gillmor</i>	<i>Obey</i>
<i>Allen</i>	<i>Gingrey</i>	<i>Ortiz</i>
<i>Andrews</i>	<i>Gonzalez</i>	<i>Osborne</i>
<i>Baca</i>	<i>Gordon</i>	<i>Owens</i>
<i>Baird</i>	<i>Granger</i>	<i>Oxley</i>
<i>Baker</i>	<i>Graves</i>	<i>Pallone</i>
<i>Barrett (SC)</i>	<i>Green, Al</i>	<i>Pascrell</i>
<i>Barton (TX)</i>	<i>Green, Gene</i>	<i>Pastor</i>
<i>Bass</i>	<i>Grijalva</i>	<i>Payne</i>
<i>Bean</i>	<i>Gutierrez</i>	<i>Pearce</i>
<i>Beauprez</i>	<i>Hall</i>	<i>Pelosi</i>
<i>Becerra</i>	<i>Harris</i>	<i>Peterson (PA)</i>
<i>Berkley</i>	<i>Hart</i>	<i>Pickering</i>

<i>Berman</i>	<i>Hastings (FL)</i>	Poe
<i>Berry</i>	<i>Hastings (WA)</i>	<i>Pomeroy</i>
Biggert	Hayes	Porter
Bilirakis	Hensarling	Price (GA)
<i>Bishop (GA)</i>	<i>Higgins</i>	<i>Price (NC)</i>
<i>Bishop (NY)</i>	<i>Hinojosa</i>	Pryce (OH)
Bishop (UT)	Hobson	Putnam
Blackburn	Hoekstra	Radanovich
<i>Blumenauer</i>	<i>Holden</i>	<i>Rahall</i>
Blunt	<i>Holt</i>	Ramstad
Boehlert	<i>Honda</i>	<i>Rangel</i>
Boehner	<i>Hoyer</i>	Regula
Bonilla	Hulshof	Rehberg
Bonner	Hyde	Reichert
Boozman	Inglis (SC)	<i>Reyes</i>
<i>Boren</i>	<i>Inslee</i>	Reynolds
<i>Boswell</i>	<i>Israel</i>	Rogers (AL)
<i>Boucher</i>	<i>Jackson (IL)</i>	Rogers (KY)
Boustany	<i>Jackson-Lee</i>	Ros-Lehtinen
<i>Boyd</i>	<i>(TX)</i>	<i>Ross</i>
Bradley (NH)	<i>Jefferson</i>	<i>Rothman</i>
<i>Brady (PA)</i>	Jenkins	<i>Roybal-Allard</i>
Brady (TX)	Jindal	<i>Ruppersberger</i>
Brown (SC)	Johnson (CT)	<i>Rush</i>
<i>Brown,</i>	Johnson (IL)	Ryun (KS)
<i>Corrine</i>	<i>Johnson, E. B.</i>	<i>Salazar</i>
Brown-Waite,	<i>Jones (OH)</i>	<i>Sánchez, Linda</i>
Ginny	<i>Kanjorski</i>	<i>T.</i>
Camp	Keller	Saxton
Cannon	Kelly	<i>Schakowsky</i>
Cantor	Kennedy (MN)	<i>Schiff</i>
Capito	<i>Kind</i>	<i>Schwartz (PA)</i>
<i>Capuano</i>	King (NY)	<i>Scott (VA)</i>
<i>Cardoza</i>	Kingston	<i>Serrano</i>
<i>Carnahan</i>	Kirk	Sessions
Carter	Kline	Shaw
Castle	Knollenberg	Shays
Chabot	Kolbe	Shimkus
<i>Chandler</i>	Kuhl (NY)	Simmons
Chocola	LaHood	Simpson
<i>Clay</i>	<i>Lantos</i>	<i>Skelton</i>
<i>Cleaver</i>	<i>Larsen (WA)</i>	Smith (NJ)
<i>Clyburn</i>	Latham	Smith (TX)
Cole (OK)	LaTourette	<i>Smith (WA)</i>
Conaway	Leach	<i>Snyder</i>

<i>Conyers</i>	<i>Lee</i>	<i>Solis</i>
<i>Cooper</i>	<i>Levin</i>	<i>Souder</i>
<i>Cox</i>	<i>Lewis (CA)</i>	<i>Spratt</i>
<i>Cramer</i>	<i>Lewis (GA)</i>	<i>Staben</i>
<i>Crenshaw</i>	<i>Lewis (KY)</i>	<i>Stupak</i>
<i>Crowley</i>	<i>Linder</i>	<i>Sullivan</i>
<i>Cuellar</i>	<i>Lipinski</i>	<i>Sweeney</i>
<i>Culberson</i>	<i>LoBiondo</i>	<i>Tanner</i>
<i>Cummings</i>	<i>Lofgren, Zo.</i>	<i>Tauscher</i>
<i>Davis (AL)</i>	<i>Lowey</i>	<i>Terry</i>
<i>Davis (CA)</i>	<i>Lucas</i>	<i>Thomas</i>
<i>Davis (FL)</i>	<i>Lynch</i>	<i>Thompson</i>
<i>Davis (IL)</i>	<i>Mack</i>	<i>(CA)</i>
<i>Davis (KY)</i>	<i>Manzullo</i>	<i>Thompson</i>
<i>Davis (TN)</i>	<i>Marchant</i>	<i>(MS)</i>
<i>Davis, Jo Ann</i>	<i>Markey</i>	<i>Thornberry</i>
<i>Davis, Tom</i>	<i>Matheson</i>	<i>Tiahrt</i>
<i>Deal (GA)</i>	<i>Matsui</i>	<i>Tiberi</i>
<i>DeLay</i>	<i>McCarthy</i>	<i>Tierney</i>
<i>Dent</i>	<i>McCaul (TX)</i>	<i>Towns</i>
<i>Diaz-Balart, L.</i>	<i>McCrary</i>	<i>Turner</i>
<i>Diaz-Balart,</i>	<i>McHugh</i>	<i>Upton</i>
<i>M.</i>	<i>McKeon</i>	<i>Van Hollen</i>
<i>Dicks</i>	<i>McMorris</i>	<i>Velázquez</i>
<i>Doggett</i>	<i>Meek (FL)</i>	<i>Visclosky</i>
<i>Drake</i>	<i>Meeks (NY)</i>	<i>Walden (OR)</i>
<i>Dreier</i>	<i>Melancon</i>	<i>Wamp</i>
<i>Edwards</i>	<i>Menendez</i>	<i>Wasserman</i>
<i>Ehlers</i>	<i>Michaud</i>	<i>Schultz</i>
<i>Emanuel</i>	<i>Millender-</i>	<i>Waters</i>
<i>English (PA)</i>	<i>McDonald</i>	<i>Watson</i>
<i>Eshoo</i>	<i>Miller (MI)</i>	<i>Waxman</i>
<i>Etheridge</i>	<i>Miller (NC)</i>	<i>Weiner</i>
<i>Everett</i>	<i>Miller, Gary</i>	<i>Weldon (FL)</i>
<i>Fattah</i>	<i>Miller, George</i>	<i>Weldon (PA)</i>
<i>Feeney</i>	<i>Mollohan</i>	<i>Weiler</i>
<i>Ferguson</i>	<i>Moore (KS)</i>	<i>Westmoreland</i>
<i>Filner</i>	<i>Moran (KS)</i>	<i>Wexler</i>
<i>Fitzpatrick</i>	<i>Moran (VA)</i>	<i>Whitfield</i>
<i>(PA)</i>	<i>Murphy</i>	<i>Wicker</i>
<i>Foley</i>	<i>Musgrave</i>	<i>Wilson (NM)</i>
<i>Forbes</i>	<i>Neal (MA)</i>	<i>Wolf</i>
<i>Ford</i>	<i>Neugebauer</i>	<i>Woolsey</i>
<i>Fossella</i>	<i>Ney</i>	<i>Wu</i>
<i>Foxx</i>	<i>Northup</i>	<i>Wynn</i>

Frelinghuysen Garrett (NJ) Gerlach	Norwood	Young (AK)
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--- NOT VOTING 12 ---

<i>Capps</i>	Cunningham	Miller (FL)
<i>Cardin</i>	Gallegly	<i>Oberstar</i>
<i>Carson</i>	<i>Kilpatrick (MI)</i>	Platts
Cubin	<i>McIntyre</i>	Young (FL)

In a March 3, 2006 freewheeling telephone interview with Congressman Rohrabacher, *LBReport.com* asked about the Port of LB's opposition to container fees for security, reflected by an August 2005 boast by PoLB's DC lobbyist that he'd helped killed Rohrabacher's container fee legislation. Speaking extemporaneously on a cell phone while in motion, Congressman Rohrabacher said bluntly:

"It's pretty grotesque. This is the Ports beating themselves in the head with a hammer and then bragging about it. I mean it's insane." He continued:

**Cong. Rohrabacher:** ...[T]here's a tremendous arrogance in the Ports, and in Long Beach and in Los Angeles in those people involved around the Ports, and when you have arrogance coupled with basically naivete, it's really a very destructive force.

And that's what you've got here. They're involved in a powerful dynamic in our society, the ports. This is an incredibly powerful dynamic, but they are nowhere near as sophisticated as they think they are. And in fact, their parochialism would be funny if it wasn't so destructive, and their opposition to the container fee idea is the best example of that.

However, if you have a good idea and you keep pushing it, and you are someone who doesn't

mind being put down for a number of years until people realize that you are right, it's OK.

### **Laying Groundwork For Undermining Lowenthal Container Fee Bill (SB 760, now SB 927)**

In 2005, the LB City Council publicly voted to support a package of port-related bills authored by State Senator Alan Lowenthal (D., LB-SP-PV). The bills included a container fee measure (SB 760) whose revenue would fund port security measures, clean air programs and port rail programs.

The proposed container fee was fiercely opposed by industry...which cited federal issues that would have been cured by the federal Rohrabacher bill...which died in the House of Representatives without support from the City of LB and with opposition by the Port of LB's lobbyists).

As noted in a May 2005 Assembly committee analysis:

Opponents of this bill make two major arguments against the measure. First, trade-related businesses and organizations contend that the bill violates the United States Constitution's Commerce Clause and breach obligations under international trade agreements, including Article VII of the General Agreement on Trade and Tariffs. They believe that costly litigation could result and an international trade dispute at the World Trade Organization could ensue. Opponents believe that California ports would become competitively disadvantaged by the new fees and that cargo would be diverted elsewhere, away from California ports. They describe the container fee as an illegal tax being imposed at a time when

existing transportation and infrastructure funds are being diverted to the General Fund and that the new charges will have to be passed on to consumers...

Sen. Lowenthal's container fee measure was opposed by the "California Association of Port Authorities" ...an entity in which the Port of LB and L.A. are members. The "CA Ass'n of Port Authorities" is also listed on the letterhead of the "California Trade Coalition" (listed names include the CA Chamber of Commerce), which submitted an opposition memo to an Assembly Committee slated to hear the container fee bill on August 17, 2006.

The "California Trade Coalition" memo cited federal legal issues...which the Rohrabacher bill (defeated without support from the City of LB and with opposition by the Port of LB's lobbyist). **"We believe [Sen. Lowenthal's container fee bill] also exposes the state to significant legal expenses as the proposed fee violates the U.S. Constitution** [emphasis in original], specific federal fee authorizing statutes, and international trade agreements, such as article VII of the General Agreement on Trade and Tariffs (GATT)," said the CA Trade Coalition's advocacy memo.

As previously reported by *LBReport.com*, the "CA Ass'n of Port Authorities" also opposed SB 764 by Sen Lowenthal ("no net increase" in port air pollution measure) that was supported by the City of Long Beach.

The Port of Long Beach was publicly neutral on the "no net increase (SB 764) and container fee (SB 760) measures...but for the past year, the president of the "CA Ass'n of Port Authorities" (a rotating position) was Port of LB Executive Director, Richard Steinke.

On June 20, 2006, one day after *LBReport.com* reported that the "CA Ass'n of Port Authorities" had testified against Sen. Lowenthal's "no net increase" bill in an Assembly committee, Councilmembers Tonia Reyes Uranga and Rae Gabelich quizzed Port officials about the matter.

Councilwoman Reyes Uranga asked PoLB Dir. of Community Affairs & Gov't Relations, Carl Kemp, about Executive Director Steinke's role with the CA Ass'n of Port Authorities. Mr. Kemp replied:

**PoLB Dir. of Community Affairs/Gov't Relations Carl Kemp:** We along with all California Ports are members of this Association. However, though the Association did take a position on [SB 764, the "no net increase" bill], we were not official voting parties in it, much like the City Council might take a vote where there are Councilmembers who may or may not vote on it, that's the official position of the Council for the record. The Port of Long Beach did not take an official position opposing any of the legislation that would be counter to what the City Council has supported...As we promised the City Council, we are aggressively neutral and we are in regular communication with Senator Lowenthal and his staff and we have a very open line of communication...

**Councilwoman Rae Gabelich:** [to PoLB Executive Dir. Steinke]...I just have to ask you this. During that vote as the president of CAPA, did you cast your vote to support their not-supporting that initiative [SB 764]?

**PoLB Executive Dir. Steinke:** No, Councilwoman. As Mr. Kemp explained, though I am the president of the California Association of Port Authorities, which will expire in September, I took no vote for or against the legislation. You have to

understand that we have eleven public ports in California. Many of those ports see legislation as having a competitive disadvantage for their business. Many of the ports north of us, Oakland, Hueneme, Redwood City, Richmond, they all would love the business that comes to southern California. Legislation that might look to prevent business or reduce business down here is looked at as a bonanza for those ports, so they are very aggressive to get as much business as they can... You'll see that many of the times that we will abstain from voting for legislation or in support of legislation...

In a surprising turn of events, Sen. Lowenthal's port bills (which had cleared the State Senate) were blocked by Assembly Democrats. A *Daily Breeze/Copley* news story (linked with permission on *LBReport.com*) indicated this stemmed from some Assembly Democrats' annoyance with Sen. Lowenthal's bill to reform the drawing of legislators' district lines (now visibly Gerrymandered by controlling Democrat majorities).

The Assembly leadership eventually let one of Sen. Lowenthal's port bills reach the Assembly floor. Sen. Lowenthal used a "gut and amended" procedure (pouring the container fee text into another bill, SB 927) and making some substantive changes (money previously slated for the AQMD will now go to the CA Air Resources Board) before the final vote.

SB 927 passed the state legislature and is (as we post) now on the Governor's desk...with industry interests furiously lobbying the Governor to veto it.

In their opposition, they routinely cite the federal legal issues that the Rohrabacher bill (which died without support from the City of LB

and with opposition by the Port's lobbyist) could largely have cured.

"Container fees of the sort contemplated in the Lowenthal bill would violate the Commerce Clause of the U.S. Constitution, international law and U.S. treaty obligations, and would expose the state of California to court challenge were it to become law," said the president of the National Retail Federation ("the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services") in a letter urging Gov. Schwarzenegger to veto the bill.

The letter also contended that the container fee would "substantially increase the cost of moving goods through LA/Long Beach and adversely impact these ports' competitiveness and workforce as retailers and other shippers are forced to look for alternative ports outside the state of California to enter their goods."

*LBReport.com* will report the Governor's action -- veto or approval -- on the Lowenthal container fee measure when news breaks.

### **Ensuring Non-Elected Port Officials Help Write Law Regulating Security Measures, Fed'l "SAFE Port" Act**

On Sept. 11, 2001, terrorists used airports at Boston and Newark -- operated by area port authorities -- to launch their attacks on America. The port-authority run airports used federally-approved useless "security" approved in a process heavily influenced by hired lobbyists and advocates for industry interest

groups.

Nearly five years after that dark day, the process was arguably repeated.

On March 17, 2006, the Port of Long Beach served as host for a meeting with members of Congress writing and voting on HR 4954, dubbed by its supporters the "SAFE Port" Act,

Those participating in the meeting included Congressmen Dan Lungren (R., Sacramento) and Loretta Sanchez (D.,



Garden Grove), chair and ranking member, respectively, of the Subcommittee on Economic Security, Infrastructure Protection & Cybersecurity of the House Homeland Security Committee.

Also taking part were Port officials (PoLA Exec. Dir Geraldine Knatz, a PoLB alumna), LB Harbor Commissioners James Hankla and Mario Cordero, PoLB Executive Dir. Richard Steinke and multiple PoLB staffers, plus federal officials and industry interests.

But at a press event called to publicized the meeting, we saw no elected officials, no LB or L.A. City Councilmembers or LB city management. We subsequently learned later that then-Mayor Beverly O'Neill's office was informed of the meeting...but other LB elected officials weren't...an oversight that PoLB's Carl Kemp told us resulted from a clerical error. Mr. Kemp said a :cc line on an advisory memo to

Councilmembers was inadvertently not transmitted. "It was my error," Mr. Kemp said.

**LBReport.com** also subsequently learned and reported that Assemblywoman Betty Karnette (D., LB), whose district includes the Port of LB, was told by staff in Congressman Lungren's DC office that she was not welcome to attend as a participant.



Present at the event was the Port of LB's DC lobbyist E. Del Smith...who for years has also represented the City of

LB's interests in DC.

We noticed that Cong. Rohrabacher (whose district includes the Port of LB-L.A.) wasn't listed as a co-sponsor on the bill...and at a news conference we asked if Congressmembers Lungren and Sanchez support Congressman Rohrabacher's efforts to enable Ports to levy container fees -- paid by shippers whose containers create public security risks and costs -- to help defray public costs of container-related security measures.

(In August 2005, Port of LB lobbyist Smith publicly told LB's Harbor Commissioners that his firm had helped kill Cong. Rohrabacher's container fee legislation.)

Congressman Lungren said the container fee idea is "not original with Dana [Congressman Rohrabacher], there was an [op-ed piece by a third party in a national newspaper] suggesting

that there be a \$20 charge per container. At least that has a connection with the process. I would like to stick with the fees that are already existing. I don't know what the trade implications are with that. I'm not sure what the total tax implications are from that. All I'm saying is we at least start the debate going with a dedicated source of funds or stream of funds for this purpose ought to be established. If they want to find it some other way, I'm happy to engage in that debate but at least we're saying we think it's that important this ought to be dedicated for this purpose."

The House version of the SAFE Port Act relies on maritime customs fees for funding. That view is supported by the American Association of Port Authorities (AAPA), an advocacy group in which the Port of LB is a member. AAPA says it supports increased port security but opposes new taxes on shippers.

In a policy statement on its website posted before introduction of the SAFE Ports act, AAPA said, "AAPA believes that Customs duties should be used as a source of security funds if Congress seeks a dedicated source of funding. AAPA opposes new taxes to fund security enhancements."

The AAPA also worked to defeat an amendment offered by Congressmembers Ed Markey (D., Boston) and Jerrold Nadler (D. NYC) that would have amended the SAFE Port Act to add a requirement that all incoming cargo containers be inspected and sealed before entering the U.S. and scanned for radiation and density and, if appropriate, atomic elements

The text supported by Markey and Nadler stated in pertinent part:

**IN GENERAL.**--A container may enter the United States, either directly or via a foreign port, only if--

“(A) the container is scanned with equipment that meets the standards established pursuant to paragraph (2)(A) and a copy of the scan is provided to the Secretary; and

“(B) the container is secured with a seal that meets the standards established pursuant to paragraph (2)(B), before the container is loaded on the vessel for shipment to the United States.

**“(2) STANDARDS FOR SCANNING EQUIPMENT AND SEALS.**--

“(A) **SCANNING EQUIPMENT.**--The Secretary shall establish standards for scanning equipment required to be used under paragraph (1)(A) to ensure that such equipment uses the best-available technology, including technology to scan a container for radiation and density and, if appropriate, for atomic elements.

“(B) **SEALS.**--The Secretary shall establish standards for seals required to be used under paragraph (1)(B) to ensure that such seals use the best-available technology, including technology to detect any breach into a container and identify the time of such breach.

While the AAPA (funded in part by dues paid by LB's and L.A.'s publicly owned Ports) worked to defeat the container inspection requirement, the City of LB officially said...nothing. When the cargo container inspection amendment reached the House floor on May 4, 2006, Congressmembers Markey and Nadler gave strong speeches in support...but they didn't have support from CA's fifth largest

city, home to part of the nation's busiest container port complex. The LB City Council had simply not discussed the issue.

Neither Congresswoman Jane Harman (D., Southbay), a co-author of the "SAFE" port bill, nor Congresswoman Juanita Millender-McDonald (D., Carson-LB) spoke in support of the 100% container inspection requirement. Harman was one of the originally listed co-sponsors of the 100% inspection amendment but on the House floor Harman spoke in favor of the bill without it. "I urge its passage. This is the first great day of the 2006 legislative calendar," Congresswoman Harman said.

After voting to put themselves on record in favor of the 100% container inspection requirement, Congressmembers Harman and Millender-McDonald then joined all but one Democrat (Markey) in voting for the bill without it.

Cong. Dan Lungren (R., Sacramento), a previous LB resident/representative who co-authored the "SAFE" port bill, and Congressman Dana Rohrabacher (R., HB-LB-PV), who represents roughly 20% of LB (SE ELB), voted against the 100% inspection requirement and voted for the bill without it.

We post below extended portions of the May 4, 2006 House debate on the 100% container inspection requirement from the *Congressional Record* [with bracketed material by us for clarity]:

**Mr. KING (R. NY) [House Homeland Security Committee chair]:** ...Madam Chairman, on September 11 all of us pledged that we would do all we could to prevent another terrorist attack from occurring in this

country. One of the areas where we are most vulnerable is our ports. There are 11 million containers that come into our ports every year from foreign countries. Much progress has been made since September 11 in protecting our ports and improving the inspection process, the screening process, the scanning process; but the reality is that more has to be done.

I strongly believe that the SAFE Ports Act is a major step in the direction of giving us that level of protection that we need. For instance, it provides \$400 million a year in risk-based funding for a dedicated port security grant program.

It mandates the deployment of radiation portal monitors which will cover 98 percent of the containers entering our country and then going out into the country...

And as far as the Container Security Initiative, CSI, it mandates that the Secretary of Homeland Security will not allow any container to be loaded onto a ship overseas unless that container is inspected at our request. In the past, we have had a number of countries that refused to make these inspections. There have been 1,000 containers that have entered this country unexamined, uninspected because the overseas ports would not carry out the inspection. In the future, that will not be allowed to happen.

Also, we require DHS to continually evaluate emerging radioactive detection and imaging technology. We also increase the number of inspectors by 1,200. All of these are part of the layered response and the layered system of defense that we need to significantly and dramatically upgrade the level of protection in our ports.

This is a bill which I believe warrants the

support of the entire House. It passed out of the subcommittee unanimously, and it passed out of the full committee by a vote of 29-0, and I will be urging its adoption today...

**Mr. DANIEL E. LUNGREN (R. CA [Sacramento area]):**...This is the best of bills: legislation written to make a law, not to make a political statement. Yes, there are political statements that will be made about this bill, but the fact of the matter is we are moving forward in an effective way to solve a challenge that is out there that the American people recognize and that we recognize...

I would say we are going to have a debate about 100 percent inspection, and I would say we all would hope for that day. But I would just direct people's attention to the National Journal of this last Friday on the inside page where they have something called the "Reality Check" and they refer to this effort to have 100 percent container inspection. They say, and this is the National Journal, that "it is a nice idea but not very feasible with current technology. Eleven million containers are shipped to U.S. ports each year. Of those, U.S. Customs and border protection personnel physically screen only about 6 percent, 660,000. 'It is a noble impulse, but as a practical matter, it can't be accomplished right now,' said Jack Riley, homeland security expert with RAND."

The key to being able to carry this out in the future is better equipment that stands [we believe he said "scans"] faster; and that requirement, that impulse, is in this bill as a result of an amendment adopted that was presented by the gentlewoman from Florida. We are attempting to make us safer. Let us rejoice in this day and let us support this bill.

**Mr. MARKEY (D., MA):**...Mr. Chairman, I thank the gentleman.

This bill has a fatal flaw. It relies upon paperwork checks. If you went to the airport with your bags, showed up, showed the person your ticket and your ID, and then the person just waived you on to the plane with another 150 people and all the bags went on as well, with no scanning, no screening, you would sit petrified in your seat.

Well, that is what is going to happen, unless the recommittal motion which Mr. Nadler and I are going to make later on today is in fact voted upon successfully.

The Republican leadership has refused to allow a debate on 100 percent screening of cargo containers coming into the United States.

Now, why is that important? It is important because of all of the unsecured nuclear material in the former Soviet Union that al Qaeda can purchase, take to a port in Europe, in Asia, in Africa, and then, with a piece of paper and an ID, waive on a 10,000 or 20,000 or 30,000 pound container and, with the nuclear bomb inside of it, send that ship, that container, right to a port in the United States, to New York, to Boston, to California, to any other city in America, without being screened.

President Kennedy took on the Soviet Union technologically in the 1960s. He put a man on the moon in 8 years. The Republicans are saying they can't figure out in 8 years, 8 years, from 2001 to 2009, how to screen cargo containers coming into the United States and how to put tamper-proof seals on them, knowing that al Qaeda has said that bringing a nuclear weapon into the United States is their highest goal, to kill hundreds of thousands of Americans.

So this vote that we have later on today will decide whether or not this fatal flaw in the

Republican bill is allowed to stand, if the Bush administration is allowed to turn a blind eye to the number one threat that al Qaeda poses to our country.

**Mr. KING** of New York. Mr. Chairman, I yield myself the balance of my time.

Mr. Chairman, we went through a very long and productive, bipartisan process in arriving at this point today. It trivializes the debate, it demeans the process, to be suggesting that anyone, anyone at all in this body, certainly anyone on this committee, is not absolutely committed to the protection of every American life. Those of us who came from districts who lost large numbers of people on September 11 perhaps have even a more acute interest in doing all we possibly can.

But we also don't want to do the most cruel thing of all, and that is hold out a false hope. The worst thing of all is to adopt legislation which is symbolic rather than real. We want results. We are not looking for sound bites, we are not looking for headlines, we are not looking for the evening news, we are not looking for the tabloids. We are looking to get results to save American lives and to make America safer.

That is exactly what this legislation does, through layers of defense, through layers of security, through well-thought-out processes and urging as quickly as possible the advancement and the use of technology that can be done. Not technology that might work or might not work, but technology that can work and will work and can be implemented in an effective way.

That is what this is about. That is what the debate should be about. As the late morning and early afternoon goes forward, I am sure the American voters who are watching this will see that there are those of us who do

want to maintain the level of debate on both sides of the aisle, and that level is going to bring about American security.

Mr. Chairman, I yield back the balance of my time.

...

**Mr. NADLER (D. NY):**...Mr. Chairman, I rise in very tepid support of this bill. It is a very nice bill. It has some nice provisions. None of it matters very much if we do not at least electronically scan every container before it is put on a ship bound for the United States. All it would take is one atomic bomb, one radiological bomb, to make 9/11 look like a fire cracker, to kill hundreds of thousands of people, to cost hundreds of billions of dollars, to bring commerce to a total halt for weeks or months while every ship, every container is not scanned, but searched, inspected by hand before they are allowed to proceed into this country, because that is what will happen if there is, God forbid, a disaster in this country.

We have no protection against that now. Even with this bill, we depend on risk-based analysis, on paper as Mr. Markey said, to defend us. What the motion to recommit does is to say that no container can be put on a ship bound for the United States until it is scanned for radiation and for density, until the result of that scan is transmitted electronically in real-time to American inspectors in the United States, and until a tamper-proof seal that will tell us whether that container has been tampered with after it is scanned is put on that container.

We are told this is not feasible. Mr. King says the technology does not exist. But it is done in Hong Kong today. It is done in Hong Kong today. The two biggest terminals in Hong Kong have this. Of course, nobody

bothers reading the scans because the Department of Homeland Security cannot be bothered. They are on a hard drive in Hong Kong.

It is relatively cheap, \$6.50 per container, 10 seconds per container, no delay. But the DHS has no urgency. Mr. Gingrey, a Republican of Georgia at the Rules Committee, said that he had a company in his district that makes those tamper-proof seals that can talk to the global positioning satellite; but he cannot get DHS to talk to them, they are not interested.

The motion to recommit we are told is irresponsible and partisan. It is, in fact, word for word identical as the amendment that was agreed to by the chairman of the Transportation Committee and adopted unanimously by a bipartisan vote in the Transportation Committee. But suddenly when it comes to the floor, it is a partisan amendment.

The Republicans on the Transportation Committee understood the necessity for protecting our homeland.

The Republicans on the Homeland Security Committee apparently do not, nor does the Republican leadership, because they will not agree to this obvious thing to do that everyone, bipartisan, on the Transportation Committee agreed to do.

Mr. Chairman, the main risk comes from the so-called low-risk containers, not the high-risk containers. Wal-Mart ships a shipment of sneakers from a factory in Indonesia. And on the truck on the way to the port, the truck driver goes to lunch. And while he is at lunch, someone takes out a package of sneakers and puts in an atomic bomb. The bill of lading is fine. It is a reliable company. It is low-risk, and there is an atomic bomb on that container, and no one sees it because that

container is not scanned.

Maybe it is scanned under this bill in Boston or in Los Angeles. It is too late to look at it in Los Angeles if there is an atomic bomb on board.

Mr. Chairman, this motion to recommit, which I hope Members will vote for on the merits, not vote party line against it because it is a procedural motion or some such nonsense, makes this a worthy bill, and makes this a bill that will really protect Americans... I offer this motion to recommit with the gentleman from Massachusetts (Mr. *Markey*), and I thank him for his efforts on this issue.

This is a reasonable bill, but none of it matters much if we don't at least electronically scan every shipping container. All it takes is one atomic or radiological bomb to make 9/11 look like a firecracker, to kill hundreds of thousands of people, to cost hundreds of billions of dollars, to bring commerce to a total halt for weeks or months while every ship is searched by hand because we don't have in place the means to scan every container.

That is what this motion is about. If we really want to make this country safer, we must demand that before any container is put on a ship bound for the United States it must be scanned electronically in the foreign port. It is too late if we find a nuclear bomb in Los Angeles or New York.

The container must then be sealed with a seal that will tell us if it is tampered with after it is scanned, and the results of the scan must be transmitted electronically to people in the United States for examination.

This motion is identical to an amendment that was unanimously agreed to by Chairman *Young* and the entire Transportation

Committee a month ago. This is not a partisan issue, unless you choose to make it so by voting "no."

They say the technology doesn't exist. The technology most certainly does exist. It is installed right now in Hong Kong. The technology is installed in Hong Kong now, except that the results of those scans are stored on disks because no one at the Department of Homeland Security can be bothered to read them.

The people who say we can't do this are the same people that told us 2 years ago that we couldn't get a bill of lading for every container 24 hours in advance, the same people who told us that if we searched every passenger, the airports would be gridlocked, the planes would never take off. Scanning every container is feasible, it is relatively cheap, and it will not delay global commerce.

If we continue to rely solely on so-called risk-based strategy, the terrorists will simply put the atomic bomb in a low-risk container from Wal-Mart. The real risk is that a good company will have a container with sneakers on a truck in Indonesia. On the way to a port, the driver will stop for lunch; and while he is at lunch terrorists will take out some sneakers and put in a bomb. And the bill of lading will be fine.

The question on this motion is, do we or do we not want to risk American cities and American lives on the chairman's confidence in Wal-Mart's paperwork?

Mr. Speaker, I yield now to a leader on this issue, Mr. *Markey*.

**Mr. MARKEY.** I thank the gentleman from New York for his great leadership on this issue.

This recommittal motion deals with the fatal

law in the Republican bill. They have refused to allow a vote on this House floor on this issue. This is now the time for the Members to go on record to get real about cargo security.

The threat is that, in the former Soviet Union, with all of the loose nuclear material, that al Qaeda purchases a nuclear device, brings it to a port in Asia, in Africa, in Europe, places it upon a ship. Using the screening which the Republican party supports, the screening would be a piece of paper. Oh, you look okay. You can bring it on to the ship. No inspection, no scanning. That is what their bill does.

The Democratic substitute says that no container can be placed on a ship coming to the United States which is not scanned for uranium, for nuclear materials, for a nuclear bomb, for weapons of mass destruction.

The screening must be done overseas, and we must seal those containers. We must scan and seal overseas so that we do not have to duck and cover here in the United States. That is the risk that al Qaeda has said they pose to us at the very top of their terrorist target list.

The Republicans are basically saying they are going to put a "Beware of Dog" sign out on the lawn but not purchase a dog, never do the screening, never do the inspection, use a paperwork inspection instead.

This bill has a loophole big enough to drive a cargo container filled with nuclear weapons material through it. This is an historic moment.

Here is the seal which the Republicans are still approving to be placed upon a cargo container. This can be cut by a child's scissors, ladies and gentlemen.

This is what should be placed upon each one of the containers after they have been scanned, after they have been sealed, to make sure that if it is tampered with an electronic signal goes to the Department of Homeland Security.

The Republican party says no. The Republican party says they will use paperwork instead of real, physical scanning of each and every cargo container, knowing that it could have a nuclear weapon, knowing that these nuclear materials have not been secured in the former Soviet Union.

Vote "aye" on the recommittal motion and protect the security of our country from the single greatest threat that is posed to it. Vote "aye" on the recommittal motion.

**Mr. KING [R. NY]**...Mr. Speaker, I rise in opposition to the motion to recommit.

The SPEAKER pro tempore. The gentleman is recognized for 5 minutes.

Mr. KING of New York. Mr. Speaker, I yield to the gentleman from California (Mr. *Daniel E. Lungren*), the author of the legislation.

**Mr. DANIEL E. LUNGREN [R. CA]** : Mr. Speaker, I came to this body with many of you to make sure that we did what was necessary to protect our constituents. I brought this bill to the floor, through the subcommittee, committee and to the floor with that promise in mind.

This is not, as the gentleman from Massachusetts said, a Republican bill. This is, in fact, a bipartisan bill. Eighty cosponsors. Passed our committee 29-0.

There is a dispute with respect to this particular technology, and I might just refer you to the National Journal of this last week

talking about this very issue. It said, nice idea, but not very feasible with current technology.

Eleven million containers are shipped to the U.S. ports each year. Of those, U.S. Customs and Border Protection personnel physically screen, that means inspect, only about 6 percent, or 660,000.

It is a noble impulse, but, as a practical matter, it can't be accomplished right now, said Jack Riley, Homeland Security expert with Rand.

The key to being able to carry this out in the future is better equipment that scans faster. That is what our bill does. It asks us to accelerate our investigation into new technology. It mandates that the Secretary, if, in fact, he finds that to be usable, practical, adaptable, that he then negotiate with foreign countries to immediately put it into place and, if they refuse, gives our President and our Secretary the right to refuse to allow their cargo into the United States. We don't put a time limit on it. We said as soon as it is feasible to do it.

So as a great political philosopher, Don Meredith, once said, "If ifs and buts were candy and nuts, every day would be Christmas."

We don't bring you a hope that cannot be fulfilled. We bring you a promise that can be fulfilled in this bill. Please vote down this motion to recommit.

**Mr. KING of New York.** Mr. Speaker, let me at the outset commend Ranking Member *Thompson*, Chairman LUNGREN, Ranking Member SANCHEZ, Ms. *Harman* for the truly bipartisan job they did in putting this together...

I am proud of how bipartisan this was,

right up till a few moments ago. Just this afternoon we adopted nine Democratic amendments on this bill.

The reality is, though, this is an outstanding port security bill. I came from a district which lost more than 150 friends, neighbors and constituents on September 11. Unlike Mr. *Markey*, I don't need visual aids to remind me of what happened on September 11.

**Mr. MARKEY.** Will the gentleman yield?

**Mr KING of New York.** No, I will not yield. I did not interrupt you.

**Mr. MARKEY.** Mohammed Atta started in Boston, my friend. There were Bostonians on that plane.

**The SPEAKER pro tempore.** The gentleman from New York is recognized.

**Mr. KING of New York.** Amazing how the truth hurts.

I don't need visual aids to remind me what happened on September 11. I can go to my district office and see a woman working at the front desk who lost two cousins. I can talk to another member of my staff who lost a son, or another member who lost two brothers on that day. I can go to church on Sunday and see 10, 15 families who lost people.

This is an issue where every Member on both sides of the aisle is committed to doing the right thing. And it is wrong when people on the other side say the Republicans are not trying to stop another nuclear attack. Do they really believe that? Do they so demean the process of debate in this House that they are willing to do anything to get elected, do anything to make points on evening news, the sound bites, the cable TV?

The fact is this bill is a real bill. It does not send a false or misleading hope. It is not a cruel hoax. It does what is real. It does what can be done, and that is why I am so proud of this bill.

We adopted amendments by Ms. *Ginny Brown-Waite*, by Mr. *Shays*. And, by the way, the language in our bill is far similar to the amendment adopted on a bipartisan basis sponsored by a member of the opposition party in the Senate yesterday than anything Mr. *Markey* or Mr. *Nadler* have introduced today.

So I say, do what is right. Stand for real port security, stand for a really strong America. Vote down the motion to recommit and vote for the underlying bill that will bring about real safe ports in this country and we can all be proud of it.

I yield back the balance of my time.

**The SPEAKER pro tempore.** All time for debate has expired.

Without objection, the previous question is ordered on the motion to recommit...

**Mr. NADLER.** Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered...

The motion to recommit failed on a 202-222 near party-line vote (six Repubs voted with Dems). The House then passed the "SAFE Port" bill without the 100% container inspection requirement on a 421-2 vote...sending it to the Senate.

### **Epilogue and Prologue**

On September 11, 2006 the U.S. Senate is scheduled to take up its version of the SAFE

Port Act; two amendments (one by Sen. John McCain (R., AZ) on rail security) have already been offered...and more may be coming.

As the bill currently stands, it includes the following provisions (summary text)

**Section 121: Domestic radiation detection and imaging.** Requires the [Homeland Security] Secretary to develop a strategy for deployment of radiation detection capabilities and ensures that by December 2007, all containers entering the U.S., through the busiest 22 seaports, shall be examined for radiation. Requires DHS to submit a report of the strategic plan developed and to implement the strategy nationwide within three years. Requires DHS to submit a separate plan for the development of equipment to detect WMD threats at all U.S. ports of entry.

**Section 122: Port security user fee study.** Requires DHS to study the need for and feasibility of oceanborne and port-related transportation security user fees to be collected for funding port security improvements. Requires DHS to submit a report detailing the results of the study, analysis of current customs fees and duties collected that are dedicated to security, comparison of comparable fees imposed in ports of Canada and Mexico, assessment of the impact on competitiveness of U.S. ports, and recommendations based on findings.

On September 8, 2006, Sen. Susan Collins (R., ME) indicated she expects debate on the issue of requiring the 100% inspection of cargo containers. She voiced her opposition to a 100% container inspection requirement by quoting a letter sent to her by an interest group representing retailers. We quote the *Congressional Record* text below:

Ms. COLLINS. Mr. President, one of the issues that will undoubtedly come up during the debate on the port security bill has to do with the scanning of containers. Some people have asked: Why don't we scan 100 percent of the 11 million containers coming into this country? And the answer is simply that it is not practical with the current technology. The bill that is before us authorizes three pilot projects in three foreign ports where we would take a look at the feasibility and practicality and the implications of 100 percent scanning.

There is 100 percent screening. There is a difference between screening a container, which means gathering information on each and every container and doing a sophisticated computer analysis to determine which are of higher risk, versus scanning each container with an x-ray-type machine or some other method or a physical inspection.

The problem of trying to scan 100 percent of all containers is best summed up by a letter that we recently received from the Supply Chain Security Coalition. This is a coalition of some of the largest and most knowledgeable stakeholders in the supply chain's system, including the Retail Industry Leaders Association.

The letter says:

One hundred percent scanning proposals and amendments advocating such a proposal could potentially actually decrease security by forcing containers to sit for extended periods of time, putting them at greater risk of tampering, and would divert resources away from the current risk assessment approach. In addition -- and this is the key point -- such a mandate has the potential to significantly impede the flow of commerce and damage the U.S. and global economy.

Mr. President, I ask unanimous consent that the full text of that letter be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

Hon. SUSAN COLLINS,  
U.S. Senate,  
Washington, DC.

DEAR SENATOR COLLINS: On behalf of the Retail Industry Leaders Association, I am writing to urge you to support strong and carefully crafted port security legislation that builds on the current multilayered risk assessment approach that has effectively protected our nation's seaports over the last several years. I also urge you, in the strongest terms possible, to oppose any legislation that would require all U.S. bound cargo containers to be "scanned" for radiation and density, so called 100% scanning legislation. While we strongly support improving the security of our nation's seaports, 100% scanning proposals have the potential to do more harm than good.

The Retail Industry Leaders Association (RILA) is the trade association of the largest and fastest growing companies in the retail industry. Its members include retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales. RILA members operate more than 100,000 stores, manufacturing facilities and distribution centers,

have facilities in all 50 states, and provide millions of jobs domestically and worldwide.

We understand that key committees in the Senate has come to an agreement on a port security bill that may be taken up as soon as tomorrow, September 8th, 2006, and that the legislation is based on provisions from earlier bills drafted in the Homeland Security & Government Affairs Committee, the Commerce, Transportation and Infrastructure Committee and the Finance Committee. Each of those bills contain important provisions that will help improve our nation's port security laws by building upon and recognizing the effectiveness of the well-established security measures our government currently has in place. RILA supports legislation that builds upon this proven approach, which is why we worked to help pass port security legislation in the House, H.R. 4954, The SAFE Ports Act. It is our hope that the Senate bill will closely mirror the House legislation, which received overwhelming bipartisan support.

However, I also strongly urge you to oppose any legislation that would require that all U.S. bound cargo containers be scanned for radiation and density, so called "100% scanning" amendments. Such proposals may at first glance appear to improve security, but in reality, they would impose immense costs on our economy and foreign relations without improving the security of our international trading systems.

First, a 100% scanning mandate is unrealistic since the technology does not yet exist to do this efficiently and with a high degree of accuracy. We are not aware of any credible technology to actually analyze the millions of density images that would be taken of outbound cargo containers, meaning such images would have to be reviewed one by one by a port official or Customs officer. Second, this mandate could actually decrease security by forcing containers to sit for extended periods of time, putting them at greater risk of tampering.

In addition, forcing all containers to be scanned--including the vast majority of those that pose no risk--would divert scarce security resources away from the successful risk assessment approach currently utilized by the government. This approach uses sophisticated risk-analysis tools to determine which containers pose a risk and ensures those containers are handled appropriately. It is important for Senators to remember that the Department of Homeland Security currently uses a risk-based targeting approach to inspect inbound cargo. All cargo manifests are submitted at least 24 hours prior to loading on a vessel and the Automated Targeting System (ATS) uses complex, rule-based formulas to assign a numerical score and identify at-risk containers. CBP then inspects 100% of all containers deemed high-risk.

Finally, a 100% scanning mandate has the potential to significantly

impede the flow of commerce and do damage to the economy. According a June 2006 study conducted by the RAND Corporation, 100% scanning would delay the movement cargo containers by 5.5 hours per container. With 11 to 12 million containers entering the U.S. every year, it is obvious that of 100% scanning mandate would bring global commerce and the flow goods to a virtual standstill. This would severely damage the U.S. economy, not only by denying consumers access to thousands of products they need, but also by preventing the delivery of material and other inputs that U.S. manufactures need.

Rather than mandating 100% scanning, port security legislation should authorize additional testing and evaluation of scanning technology. Several of the relevant port security bills address this issue by calling for pilot projects and other evaluations to test the effectiveness and operational capability to conduct increased container scanning, including the "GreenLane Maritime Cargo Security Act" passed by the Senate Homeland Security Committee and the House SAFE Ports Act. These provisions represent the best way to address this issue and answer important operational and economic questions critical to understanding how to effectively implement container scanning.

Retail companies are among the largest and most knowledgeable stakeholders in the supply chain

system and administer the most extensive and efficient logistics operations in the world. The industry has worked hand-in-hand with the Department of Homeland Security (DHS), and specifically with the Coast Guard and Customs and Border Protection to ensure that our customers, employees, and the nation's seaports remain safe and that the nation's economy remains strong. We take a back seat to no industry in our support for strong and carefully crafted port security legislation, and we urge the Senate to move quickly to pass such a bill as soon as possible.

Thank you for your consideration of our views. We look forward to working with you on this critically important issue. Should you have any questions, please contact Paul T. Kelly, Senior Vice President for Government Affairs or Allen Thompson, Vice President for Global Supply Chain Policy.

Sincerely,  
Sandy Kennedy,  
President.

Ms. COLLINS. Mr. President, what we have tried to do with this bill is very carefully balance the need for effective, improved security with the need to ensure that we are not crippling our international trading system.

As we post on September 10, 2006, the City of Long Beach's lawmakers/policymakers on its elected City Council have yet to take a public position on this matter.

Until they do, CA's fifth largest city will not be part of the national debate or discussion on this

issue that directly affects Long Beach and the nation.

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## Retailers Welcome Veto of California Container Tax

WASHINGTON, Sept. 22 /PRNewswire/ -- The National Retail Federation today welcomed California Governor Arnold Schwarzenegger's veto of legislation that would have imposed a \$60 fee on containers moving through two of the nation's largest ports.

"The ports of Los Angeles and Long Beach are the source of imported goods that are sold across the nation," NRF President and CEO Tracy Mullin said. "This fee would have amounted to a tax that would have driven up the price of consumer goods for working Americans shopping in retail stores in virtually every state, not just California. This would have been a tax on consumers, not foreign entities. Governor Schwarzenegger did the right thing in vetoing it."

"Governor Schwarzenegger is correct in his assessment that this bill was laudable in its goals but flawed in its construction," Mullin said. "As major shippers and users of California's ports, U.S. retailers support efforts to improve port security, clean up pollution and enhance port infrastructure. This bill, however, would have violated the Commerce Clause of the U.S. Constitution, international law and U.S. treaty obligations, and would have exposed the state of California to court challenges had it become law. Ultimately, it would have driven retailers and other shippers to look for other ports outside the state of California."

"The California Retailers Association played a vital role in making the impact of this bill clear," Mullin said. "The case they made shows what an effective voice they are for the retail industry in California."

Schwarzenegger announced today that he had vetoed SB 927, sponsored by state Senator Alan Lowenthal, D-Long Beach. The measure, which would have cost retailers and other shippers an estimated \$500 million a year, would have imposed a \$60 tax on each 40-foot container (or the equivalent number of other size containers) moving through the ports of Los Angeles and Long Beach.

LA and Long Beach are the two largest container ports used by retailers to import merchandise from Asia that is then distributed to stores across the nation. The two ports handled a combined 3.6 million 40-foot-equivalent containers last year, according to the Port Tracker report prepared each month by NRF and the economic research, forecasting and analysis firm Global Insight.

The National Retail Federation is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.4 million U.S. retail establishments, more than 23 million employees -- about one in five American workers and 2005 sales of \$4.4 trillion. As the industry umbrella group, NRF also represents more than 100 state, national and international retail associations. <http://www.nrf.com>.

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## Will California Container Tax Veto Hold?

*Arnold Schwarzenegger vetoed seven bills on Friday September 22nd, including a controversial container tax that would have charged cargo owners \$30 per twenty-foot-equivalent unit. While retailers were pleased with the veto, that feeling is not universal.*

California Governor Arnold Schwarzenegger rejected Senate Bill 927, which would have levied a \$30 fee per twenty-foot-equivalent unit (TEU) on cargo containers moved through the ports of Los Angeles and Long Beach. Returning the bill to the California Senate unsigned, Schwarzenegger said in part, "This measure is flawed in its construction, application, lack of accountability and failure to coordinate with other public and private financing sources ignoring opportunities to leverage additional funding."

Schwarzenegger added, "This measure is drafted to include only two ports and applies only to goods shipped in containers, ignoring all other forms of shipping and ports of entry." With a nod to the agriculture interests in his own state, Schwarzenegger also pointed out the fees would hit exporters and have the possible unintended consequence of impacting the sale and delivery of goods grown and manufactured in California.

A goods task force appointed by the governor is developing a comprehensive report he says will provide a more thorough and strategic direction and insight on the best options to address goods movement and port-related challenges. He says the report will be available by the end of the year.

See:

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