

California Sustainable Freight Action Plan

Must Consider Economic Competitiveness, Long-Term Dedicated Funding

Summary

With the sixth largest economy in the world along with some of the world's busiest ports, California is a gateway for international trade that depends on a well-functioning freight transportation system to move billions of dollars worth of goods throughout the state, the country and the world. In 2013, the system accounted for one-third of the state's economic output (\$700 billion in revenue) and created 5 million jobs.

In 2015, Governor Edmund G. Brown Jr. called for a number of state agencies to develop a Sustainable Freight Action Plan (Action Plan) that sets forth environmental and economic goals for the entire system. The agencies finalized and released the Action Plan in 2016. It contains a number of ambitious environmental goals, including metrics on efficiency and conversion to zero- and near-zero efficiency vehicles, but it lacks the specific measurements for improved industry competitiveness with other freight transportation systems. As a result, industry stakeholders remain concerned about the unbalanced focus of this plan and whether there will be sufficient investment by the state to ensure long-term success of this vital California industry.

Background

On July 17, 2015, Governor Brown issued Executive Order B-32-15, calling for multiple state agencies to develop an integrated sustainable freight action plan by July 2016. The order called on the agencies to establish three clear targets for California's freight system:

- Improve freight efficiency;
- Transition to zero emission technologies;
- Increase the competitiveness of California's freight system.

In late July 2016, the California Air Resources Board, California State Transportation Agency, California Environmental Protection Agency, California Natural Resources Agency, California Department of Transportation, Governor's Office of Business and Economic Development and the California Energy Commission jointly released the final Action Plan.

This final plan evolved throughout a year-long process that included meetings and input on draft plans from environmental, labor, industry, and local and regional government stakeholders. The plan covers each part of the freight transportation system, including shipping, rail, ports, trucking, freight, warehouses, distribution centers, airports, and final mile deliveries.

The Action Plan put forth recommendations on a long-term 2050 vision, specific 2030 targets on emission reductions, opportunities for investments in the freight transportation system, actions to undertake in the next five years and pilot projects. Of most interest to stakeholders were the specific 2030 targets:

- Improve system efficiency by 25%, measured by the increasing value of goods and services produced by the freight sector relative to the amount of carbon produced;
- Deploy 100,000 zero-emission freight vehicles and equipment and maximize near-zero freight vehicles and equipment;
- Increased competitiveness and economic growth target.

Over the next few years the agencies will undertake a number of actions to effectuate these goals, including convening working groups with stakeholders and experts, identifying new technologies, seeking funding and investment sources, determining economic and competitiveness metrics, developing pilot projects, and, in the future, evaluating the targets to determine if adjustments are needed.

Industry Action Plan Concerns Moving Forward

• Focus Must Remain on Economic Competitiveness to Achieve Both Economic and Environmental Goals: As competition for freight volume increases, both nationally and internationally, the primary industry concern is that a hasty push to zero-efficiency technologies will create massive costs to all industries involved in freight movement (shippers, ports, rail, trucking, warehouse) and render California less competitive.

Decreasing competitiveness will not only reduce jobs, wages and the tax base by driving away freight volume, but it also will also run counter to the stated environmental objectives. California has the greenest ports in the nation and arguably the world. There is no cleaner way to move cargo than through the state's freight system. Pushing cargo to the other states and countries that do not have the same environmental laws,

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energy-efficient equipment or integrated infrastructure means these other locales will become the source of the greenhouse gas emissions.

The Action Plan failed to include specific economic and competitiveness targets, making evaluating progress on this front difficult and malleable. Although the Action Plan does indicate the agencies—with input from industry stakeholders—that will begin the process of setting these targets, it is concerning that the Action Plan was released with only specific environmental targets.

- **Avoid Facility Emission Caps:** While not specifically stated in the Action Plan, much of the discussion over the last year centered on implementing Facility Emission Caps or Facility Performance Targets. These caps would place emission limits on a facility—such as a port or railyard—measured by all the emission sources serving the facility. Not only would this serve as a potential unprecedented regulation and significantly decrease competitiveness with other states and countries that do not have these caps; it also would undercut the emission and efficiency goals of the Action Plan.

The freight industry has moved toward consolidating operations to improve efficiency and reduce the number and length of moves required to transport goods. Implementing a facility cap will counteract this progress as companies would increase the number of facilities to decrease the emissions of any one facility and move them farther from population centers to comply with potential new rules. This would result in more and longer transport moves, thereby increasing emissions.

- **Develop Long-Term, Dedicated Revenue Sources:** To remain competitive, the state will need to partner with the freight industry to provide sufficient funding and investments to transition to zero-emission technology. An economic impact study commissioned by the Pacific Merchant Shipping Association projects an increased cost of \$50 billion over the next 30 years for the ports to replace current equipment with zero-emission equipment. This cost study does not include the economic impacts on all other parts of the freight transportation system.

The Action Plan reveals some potential funding sources and investment opportunities, but they likely are insufficient to meet the targets in a commercially viable manner. A continued focus must remain on developing long-term, dedicated revenue for freight infrastructure funding.

- **Prevent Stranded Assets:** All industries involved in freight movement have made recent and significant investments and incurred costs to upgrade equipment and infrastructure in order to comply with the state's current rigorous environmental laws and regulations. The freight industry is spending billions of dollars on assets to reduce pollutants by as much as 99%. These assets have yet to reach the end of their useful life and companies have not recouped their investments. Any rule or regulations that flow from the Action Plan should be phased in over a long enough timeline to prevent stranded assets and should not mandate any specific technology that would render the current equipment immediately noncompliant.

- **Improve California Environmental Quality Act (CEQA) Process for Infrastructure Projects:** Meeting the ambitious environmental targets in the Action Plan will require developing a number of new infrastructure projects. To timely meet the targets, both state and regional partners should join in streamlining the unnecessary and burdensome parts of the project permitting process.

- **Ensure Technology is Available:** As the transition begins to meeting the zero-emission vehicle targets, consideration must be given to whether—or when—zero-emission technologies are commercially viable, technologically available and economically feasible. These technologies must be scalable, and modeled and tested in a commercial setting to ensure that they will meet the needs of the industry.

CalChamber Position

The California Chamber of Commerce does not oppose the goal of zero-emission freight movement technology, equipment and infrastructure, but the Action Plan must maintain economic competitiveness as an equal policy objective. Any emission goals or targets must be balanced with clear, specific and measurable economic targets, and there must be engagement with industry stakeholders in developing these targets.

Any new rules or regulations also must be transparent, reasonable and contain offramps if compliance proves unworkable in the future. In addition, these rules and regulations should be technology-neutral, technologically feasible and cost-effective. Finally, in order to effectuate the goals contained in the Action Plan, the state must develop long-term, dedicated funding sources for freight infrastructure.

Article written by Jeremy Merz while serving as CalChamber policy advocate. He now is vice president, state affairs – western region at the American Insurance Association.

Staff Contact

Amy Mmagu

Policy Advocate

amy.mmagu@calchamber.com

California Chamber of Commerce

P.O. Box 1736

Sacramento, CA 95812-1736

(916) 444-6670

www.calchamber.com

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