

Preface: Strengthening Florida's Global Logistics Chain

As 2005 dawned around the globe, Florida and its trading partners prepared to face the market realities simmering for the past decade: the elimination of quotas for World Trade Organization (WTO) members, the continuing push for regional free trade agreements, growing congestion at major ports of entry, and intensified global security requirements. As in the past, these realities create both opportunities and challenges for Florida's seaports and their trading partners. This edition of the annual *Seaport Mission Plan* highlights how Florida's seaports are addressing these market realities and their impact on the flow of goods through Florida's global gateways. The document focuses on the following strategic concerns:



- How the changed quota environment could affect two-way trade between Florida and the countries in the Caribbean Basin, traditionally Florida's strongest trading partners.
- What the pending free trade agreement between the U.S., Central America, and the Dominican Republic means to Florida.
- What the increased congestion at some of the major container hubs – both in the U.S. and abroad -- in the face of fast-growing trade volumes means for Florida's seaports.
- How our Caribbean Basin trading partners are implementing mandated security requirements.

In addition, as Florida continues to implement its Strategic Intermodal System (SIS) Plan, this *Seaport Mission Plan* looks at how Florida's seaports, with the help of their strategic partner, the Florida Department of Transportation (FDOT), are pursuing funding for strategic intermodal connections and trade corridor improvements.

In its dominance of U.S. trade with the Caribbean Basin countries, Florida serves as the nation's "third border," carrying goods between markets throughout the U.S. and the rest of the world over the state's "Atlantic Commerce Corridor" -- the high-priority, intermodal transportation system between Jacksonville and South Florida along the I-95 spine -- as well as over the state's other trade corridors.

New Triangular Trade Opportunities. Florida lies at the crossroads of international commerce, trading with more than 200 global partners. In the state's distinctive role as the Gateway to Latin America, however, two-way trade, transportation, and jobs come together, strengthening our economy and the developing economies of our trading partners to our mutual benefit.

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The trade and tourism relationships Florida has developed with its neighbors in the Caribbean Basin are helping improve their economic well being and stability. As the economies of these countries strengthen, they are more able to invest in their own infrastructure, create the jobs that will keep their citizens gainfully employed at home, and purchase goods from the U.S. and other countries. This, in turn, given Florida's unique role in transporting goods between markets to the north and the south, helps create jobs in this state.

Florida is not alone, however, in looking to the nation's third border. China has been investing in Latin America, promising the region nearly \$30 billion as it seeks to extend its influence in the area. In 2004, China's trade with Latin America totaled \$27 billion; it is expected to grow to \$100 billion by 2010. As this investment -- and soaring sales of the region's raw materials to China -- helps revive Latin American economies, the Latin American countries are able to purchase more goods, including high-tech equipment, from Florida.

Some forecasters are thus seeing the formation of a new triangle that links the Far East, Latin America, and the Southeast, particularly Florida. The specter of a total Far East takeover of the apparel market, for example, is mitigated by the unique "speed-to-market" advantages of Florida's proximity to the third-border nations and the efforts these nations are making to strengthen these advantages. Already Florida is seeing its trade with both China and South America increase. The conclusion: Florida's unique position at the crossroads of commerce provides the state with unflagging opportunities to expand trade, if forward-looking policies are implemented at national and state levels.

Understanding Florida's International Merchandise Trade

- Trade is the annual aggregate volume of goods flowing through Florida's regional customs districts to (exports) and from (imports) world markets.
- Capturing trade is a dynamic process that depends upon the success of Florida's proven seaport "Service Model" and the transportation component delivering goods to market.
- Trade flows over the cheapest, fastest, and most direct route from point of origin to point of destination.

Key Free Trade Agreements. The U.S. is continuing its free-trade discussions with many of its trade partners. The outcome of these discussions and their passage through Congress will have a significant effect on Florida's commerce. Agreements of particular importance to Florida include:

- The U.S.-Chile Free Trade Agreement. After thirteen years of bilateral conversations and two of negotiations, the U.S.-Chile Free Trade Agreement, forecasted to boost trade by \$1.8 billion over the next three years, took force on January 1, 2004. On that date, tariffs on 90 percent of U.S. exports to Chile and 95 percent of Chilean exports to the United States were eliminated. Chile ranks thirteenth among the state's trading partners and Florida tops the list of states exporting to that country. By the end of 2004, Florida's trade with Chile had increased by 18 percent, from \$1.8 billion to \$2.1 billion. Computer and electronic product exports, which increased by 40 percent, and machinery, which increased by 21 percent, represented the largest share of Florida's exports to Chile.¹ This is a positive example of what a free-trade agreement can mean to Florida.
- An expansion of Florida-Mexico trade under the North America Free Trade Agreement (NAFTA). January 1, 2004 also marked the tenth anniversary of NAFTA, the world's largest free-trade area. According to the International

¹ Trade Stats Express, State Export Data.

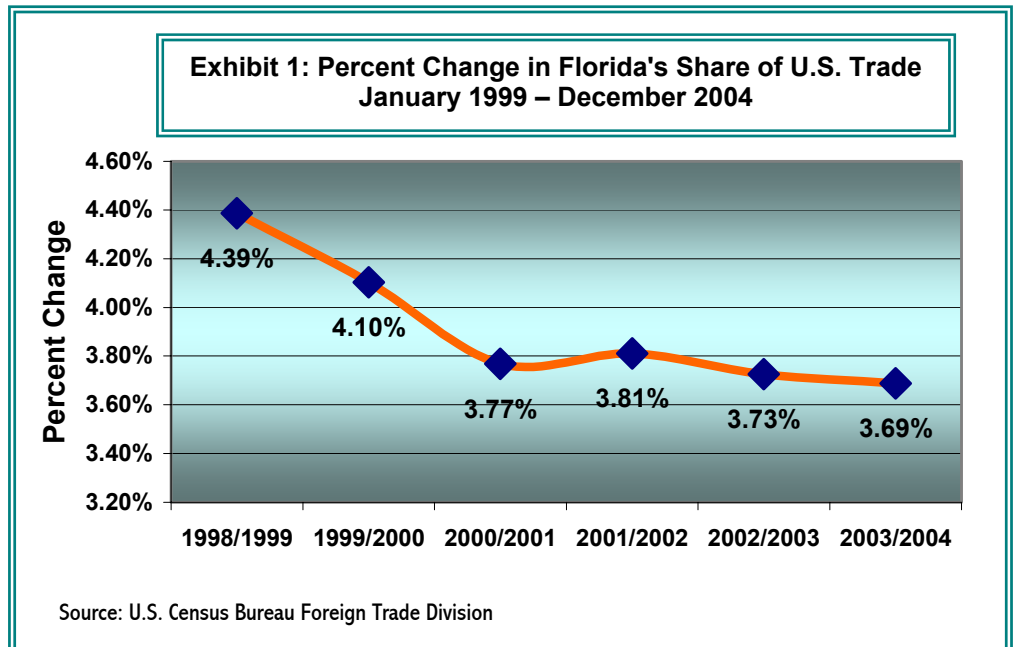
Monetary Fund, total trade among the three NAFTA countries – Canada, Mexico, and the U.S. - has more than doubled since NAFTA's inception, passing from \$306 billion in 1993 to almost \$621 billion in 2002.² In the last five years, Florida's NAFTA trade, specifically with Mexico, its tenth ranked trading partner, went from a low of \$1.6 billion in 2000 to a high of \$2.5 billion in 2004, a 56 percent increase.³



- The pending Dominican Republic-U.S.-Central America Free Trade Agreement (DR-CAFTA). This long-awaited agreement with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic has been ratified by Honduras, El Salvador and Guatemala. The U.S. Congress, after a Spring hearing on the issue, is expected to make a decision before the 2005 summer recess. Twenty years ago, as part of the Caribbean Basin Initiative (CBI), the U.S. eliminated tariffs on about 75 percent of all imports from Central America and the Caribbean; but tariffs remained on U.S. manufactured goods exported to the region. DR-CAFTA will provide immediate, duty-free access to the six-country market for most U.S. consumer and industrial goods. This agreement, despite objections from several groups, will demonstrate the firm commitment of the U.S. to its third border in the face of Far East challenges to the apparel and other regional industries following the elimination of WTO quotas. It will also sustain the two-way trade that is so important to the continued economic prosperity of the many private sector companies whose involvement in this trade creates jobs for thousands of Floridians.
- The Free Trade Area of the Americas (FTAA). Complementing each of these agreements is the anticipated FTAA, which will link 34 countries in the hemisphere -- Florida's dominant markets -- and whose Secretariat could be located in the state. While FTAA implementation has been delayed pending the resolution of differences among several participating countries, Florida has been positioning itself to take full advantage of the FTAA's eventual trade and investment benefits. Required are expanded capacity, increased efficiency and strengthened connectivity at Florida's seaports as well as strategic market insights and infrastructure investment policies.

Section III discusses these agreements further.

Florida's Market Share. An analysis of Florida's share in recent years of U.S. international merchandise trade demonstrates why the state and its maritime community must be vigorous both in protecting their relationships with their traditional trading partners and in developing new relationships. As Exhibit 1 illustrates, since 1999, Florida's share of



² Office of the U.S. Trade Representative.

³ Enterprise Florida data.

U.S. trade has declined. At the start of 1999, Florida accounted for 4.39 percent of U.S. trade; by December 2004, that share had dropped to 3.69 percent, this despite the state's record 11 percent upturn in total international trade (see Section I).

With the dramatic increase in U.S. imports from the Far East, primarily through West Coast ports, which saw an 11 percent growth in 2004 and expect a further 14 percent growth in 2005, it is understandable – although certainly not desirable -- that Florida's share of the nation's overall trade has remained comparatively static. The very saturation of the West Coast ports, combined with the resulting congestion in their harbors and on their roads and rail systems, has, however, led to a diversion of trade to East Coast ports, and Florida is starting to capture some of that trade. In 2004, the Port of Miami reported that China became its second largest trading partner in terms of volume.

Other East Coast ports offer proof of this diversion. The Port of New York/New Jersey, for example, saw a 21 percent growth in its trade with the Far East in 2004, confirming the trend of increased all-water services from Asia in recent years to obtain reliable and time-competitive delivery of goods to market. Of the port's 24 all-water services, 17 moved through the Panama Canal; the other 7 used the Suez Canal, which is seeing a dramatic resurgence in operations.

"We are coming, and we expect you to be ready."

Mr. Charles Towsley, Chairman of the FSTED Council, commenting on China's response to expanding all-water service through Florida.

How can Florida improve its competitive position in today's global marketplace and capture some of the opportunities created by the congestion at other ports serving the booming Asian trade? The state's transportation system must be able to provide better facilities and service than its rivals, moving goods and people more efficiently and more cost effectively. Florida has a strategic advantage to accomplish this goal: geographic location. The state provides a land bridge between world markets and the nation. But this advantageous geographic location can also be an obstacle to successful trade relationships if the length of the Florida peninsula creates service inefficiencies and higher transportation costs that prevent the state from outperforming its competitors in these two critical areas.

The findings of the 2003 study, *Competitive Issues Affecting Florida's Seaports*,⁴ are truer than ever: a comprehensive approach to intermodal connectivity and the funding to implement statewide connectivity needs is essential to Florida's continued competitiveness. This way of thinking is captured in the newly implemented SIS and underlies FDOT's regional approach to transportation funding. To make a difference in today's competitive environment, however, Florida needs to promote its "strategic statewide significant trade corridors for both federal and state funding.

Building an interconnected transportation system to compete in global markets is essential to Florida's continued economic development.

To overcome some of the transportation constraints that impede the flow of goods to and from Florida's seaport communities, the state must accelerate the construction of its interconnected transportation systems:

the needed infrastructure, including critical connectors between the state's trade and tourism hubs and the road and rail network, must be built on a fast track. To date the only federally designated corridor in Florida is for high-speed rail. As a result, the state has not only been short-changed in the federal allocation of corridor dollars, but has been losing its competitive advantage to other corridor systems.

Balancing Commerce and Security. Since 9/11, Florida has led the nation in developing and implementing measures to safeguard its seaports and is recognized nationally as a model for other states. To comply with Florida's mandates for minimum-security standards, as well as federal mandates, the state's seaports have prepared and implemented

⁴ *Competitive Issues Affecting Florida's Seaports*, prepared for the Florida Seaport Transportation and Economic Development Council and the Governor's Office of Tourism, Trade, and Economic Development, 2003.

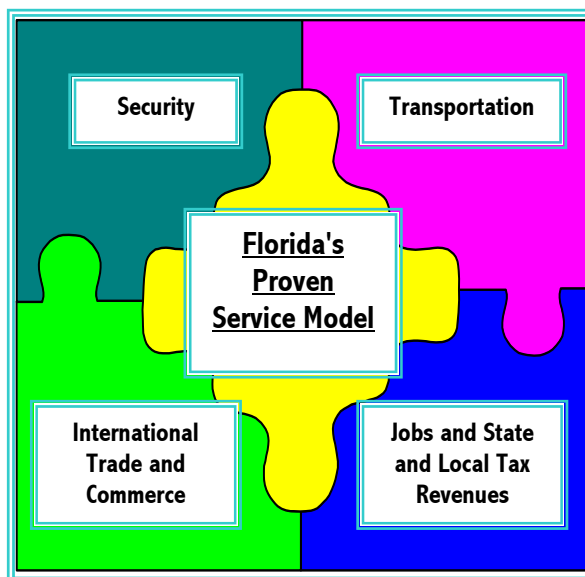
security plans and are now working with both state and federal agencies to achieve consistency in requirements and to identify appropriate funding sources. As a result of Florida's innovative efforts in developing a Uniform Port Access Credential Card, the Transportation Security Administration (TSA) has given the state the opportunity to partner in testing the prototype for the national Transportation Workers Identification Card (TWIC).

After several years of diverting millions of dollars intended for commerce-generating capital improvements into security improvements to comply with mandated security requirements, the seaports have reached the point where these basic security requirements have been implemented. Still, the seaports must continue to upgrade their security installations as necessary both to obtain the most effective and efficient security technology and to find procedures that will help speed goods and passengers through their gates. In addition, the seaports must find the funds to pay for their ongoing operational costs, which reach as much as 25 percent of their operating budgets or more. The challenges thus remain of meeting the demands for heightened security and greater transportation efficiency in an unfavorable public sector fiscal environment.



Strategic Objectives. Florida has the opportunity to achieve significant international trade growth in future years. The state's demographics, geography, and cultural connections -- combined with its role as a commercial hub for trade with South America, Central America and the Caribbean -- provide market-expanding opportunities. Regional trade agreements will facilitate this growth. Florida also has opportunities to capture new trade with the Far East. And opportunities to trade with a free Cuba cannot be ignored in planning for the future.

To capture these opportunities and continue implementing the service model that has brought the economic benefits of international trade to communities throughout Florida, the seaports are pursuing an array of strategic objectives. Achieving these objectives requires the participation of the seaports' federal, state and local transportation community partners as well as the private sector to overcome obstacles to Florida's competitive position in global commerce. At the state level, these objectives include:



- Continue to identify new funding from FDOT's work program that could be used for intermodal projects. Thanks to a successful partnership with FDOT, priority seaport projects were integrated into the FDOT Tentative Five-Year Work Program for 2005/2006-2009/2010; this partnership will be pursued to achieve the maximum funding for priority seaport projects in the future.
- Continue working with FDOT to identify funding for the seaports and their connectors within the SIS program. The seaports have identified priority criteria for new SIS-eligible projects; these criteria include system integration through corridorwide improvement packages as well as faster travel times and lowered costs.
- Explore short-sea shipping and new intelligent transportation system opportunities. Florida's seaports are collaborating with a MARAD-sponsored study to identify feasible short-shipping routes.
- Champion Florida's identified trade corridors for federal designation, making them eligible for federal funding, pending legislative changes in the forthcoming reauthorization of the Transportation Equity Act (TEA-21). In partnership with FDOT, the seaports are taking this state initiative to the federal level.

- Build on the regional intergovernmental efforts made on behalf of the Atlantic Commerce Corridor.
- Develop priorities and partnerships for a multi-year work and financing plan that allows leveraging of state funds with local funding from seaports and other local transportation entities and federal funding from grants and loans to build major regional projects in the designated trade corridors.
- Work with the executive and legislative branches, addressing constraints to Florida's competitiveness and growth of international trade.
- Partner with Enterprise Florida, FTAA Florida, the Caribbean Central American Action, and the private sector, to create a hemispheric infrastructure for trade in the region and, in particular, to help Florida's regional trading partners achieve compliance with international security requirements.
- Collaborate with FDOT on a research project to assist in continued FDOT and seaport planning, provide accurate forecasting for the seaport service model, and support investment decisions by intermodal stakeholders – all necessary requirements to maintain and grow Florida's international trade economy.

Objectives at the federal level include:

- Continue implementing an active Congressional outreach program.
- Continue educating federal policymakers about Florida's Corridors of Commerce.
- Participate in federal transportation funding development for the TEA-21 reauthorization.
- Obtain approval of the federal component of the multi-year financing plan.

Achieving these objectives requires the collaboration of all those involved in Florida's trade:

- All levels of government: federal, state, regional, and local.
- Private sector users and owners of Florida's trade and transport system.
- All modes of transportation: seaports, railroads, airports, highways, transit, and space.

Capturing trade is a dynamic process that depends upon the success of Florida's proven seaport "Service Model" and the transportation component delivering goods to market. This edition of the *Seaport Mission Plan* marks the fifteenth year that the seaports -- in partnership with FDOT, the Department of Community Affairs and the Governor's Office of Tourism, Trade, and Economic Development -- have been working to expand seaport capacity and efficiency so that international trade can flourish in Florida. The successes of this partnership are commendable; but more remains to be done because sustaining a competitive international trade network is a moving target:

- Cargo and cruise ships have more than doubled in size, requiring costly dredging and infrastructure investments.
- The volume of global trade has grown exponentially, as the Far East has become the world's manufacturing center, creating congestion in harbors and on road and rail systems.
- Transportation cost margins have become razor thin, with expectations of just-in-time and time-certain deliveries dominating shipping decisions.
- Security requirements have added a new and costly dimension to the flow of goods and passengers.

Fortunately, Florida is looking into the future as it develops the SIS required to move goods and passengers across that transportation network. Building on their past successes and working together, Florida's seaports and their public and private sector partners can bring the economic benefits of achieving their mutual transportation objectives to the state's people and commerce.