INSTITUTE FOR TRADE AND TRANSPORTATION STUDIES

PROMOTING REGIONAL AWARENESS FOR IMPROVING FREIGHT TRANSPORTATION

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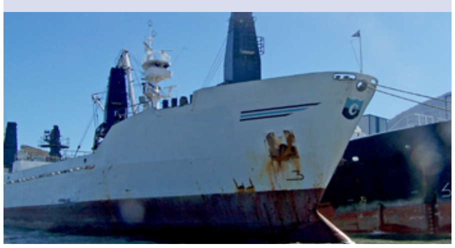
NEWS UPDATE

- I presented several speeches at the AASHTO meetings in Detroit, including a discussion on the importance of regional planning, Kentucky's trade with Mexico, and the Panama Canal expansion.

- Also participated in the International Association of Maritime Economists annual meeting, where I discussed the role of ports in changing markets. The speech was somewhat similar to the one I presented at the AAPA Facilities Engineering Seminar, which focused more on financing challenges.

- The organizational work on the upcoming (March 14-16, 2012) Freight in the Southeast Conference is underway, including booking hotels, speakers, etc. Look for more information in the next newsletter!

- Finally, I moved out to the "country", so now I am struggling to unload boxes I just packed two weeks ago and rediscover my things. Moving is such a pain!



INSIDE THIS ISSUE

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Recent U.S. Trade Agreements with Colombia, Panama and South Korea

This October, the United States approved trade agreements with Columbia, Panama, and South Korea. Currently, the U.S. has 11 Free Trade Agreements (FTA) with 17 countries, which will rise to 20 when these three treaties are implemented. These three agreements are expected to provide opportunities for U.S. firms in manufacturing, agriculture, and service industries, but in some cases will also strengthen legal rights to U.S. firms. This short article will focus on some of the implications from these agreements on the Southeast.

U.S. – Columbia Free Trade Agreement

The U.S.-Columbia Trade Promotion Agreement was negotiated in November 2006. In order to build the necessary political support, President Obama reopened negotiations with Colombia to include more labor and human rights guarantees. The agreement should help open up more U.S. firms to Columbia's $166 billion service market (banking, insurance, etc.), as well as immediately reduce tariffs traffics on 80% of U.S. exports to Columbia. (The remaining tariffs will be phased out over the next 10 years.) In 2007, the International Trade Commission (ITC) estimated that the reduction in tariffs would expand exports of U.S. goods by over $1.1 billion while increasing the U.S. GDP by $2.5 billion.

Columbia is an emerging economy, with International Monetary Fund forecasts predicting the economy may growth between 5% and 7% over the next few years. In 2010, the U.S. was Colombia's largest trading partner, receiving 42% of the Colombian exports, and was the source of 26% of the nation's imports.

In 2011, the U.S. exported $12 billion in goods to Columbia, which included chemicals, petroleum and coal products, machinery, and computers and electronics. In 2011, the U.S. imported $15.6 billion in goods from Colombia, which included oil and gas, primary metal manufacturing, and agricultural products. (Just as an FYI, Columbia is one of the largest flower sources in the U.S., so chances are if you purchased roses or carnations, they were shipped through Miami to your local florist.)

There are some key sectors where U.S. firms are expected to benefit from the trade agreement. The Colombian government has made oil and gas exploration a top priority, including setting a challenge to reach an average daily production of 1.4 million barrels per day by 2020. Companies are aggressively pursuing new drilling sites, which provide significant opportunities for U.S. exploration and production. Civil works, such as mining projects and infrastructure construction, combined with the strong demand for metals by China should create many opportunities for construction and mining equipment shipments. Colombia's telecommunications industry experienced annual growth rates of 15 percent between 2006 and 2008. U.S. exporters should expect strong growth, as previous tariffs ranged between 5 and 15 percent.

U.S. – Panama Free Trade Agreement

Panama and the United States negotiated a Trade Promotion Agree-

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The Institute for Trade and Transportation Studies provides research data and expert opinions to its Members concerning the effects of commercial freight movements on domestic and international activities, with reference to infrastructure and transportation needs, and safety implications.

The ITTS members include the Alabama Department of Transportation, the Arkansas State Highway and Transportation Department, the Florida Department of Transportation, the Georgia Department of Transportation, the Kentucky Transportation Cabinet, the Louisiana Department of Transportation and Development, the Mississippi Department of Transportation, the North Carolina Department of Transportation, the South Carolina Department of Transportation, the Tennessee Department of Transportation, the Virginia Department of Transportation, and the West Virginia Department of Transportation.

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▶LAMBERT'S LAGNIAPPE

la•gniappe |lan'yap| : something given as a bonus or extra gift.

I have listened to several speeches, (and made a few) about the role of ports, trade corridors, and export activities. It seems like everyone recognizes supporting exports represents a good thing: it promotes American businesses, and coupled with the need to reinvest in the nation's infrastructure, a two-fold strategy to stimulate the U.S. economy. (The US Government estimates that every $1 billion in new export sales will generate 6000 new jobs in the U.S.) However, the question of how to develop a freight corridor strategy always seems to get lost in details.

In a global network, the individual players each control such a small part of the total piece. The shippers route their cargo to maximize the returns on their transportation dollar. In contrast, carriers, such as trucking companies or railroads, make money on the movement of products. With the exception of the railroad industry, the public sector pays the bill for the infrastructure that everyone depends upon, but its involvement may be limited by boundaries that possibly ignore economic geography.

Patrick Donovan at the Rahill Institute sums up the balance between the public and private sectors by saying that public sector prepares the "horizontal," the hard infrastructure assets, such as roads, utilities, etc. This contrasts against the "vertical," i.e., the buildings, the terminals, etc., that rise from the horizontal. I like the analogy, as clearly, the future of a region depends upon how well prepared a local site can support development, but growth can only occur if the private sector is involved.

In thinking through the issue, I went back to the original LATTS Study recommendations, which could be framed into four broad categories: Institutions, Information, Inter-operability and Infrastructure. It is clear that the needs of regional transportation networks to handle increased trade not only depend upon improving port and airport access, but also traffic along the region's rail, waterway, and highway networks. Such investments will require a more strategic planning framework than in the past, although limited federal funds will complicate any new freight programs. It will be interesting to see if corridor strategies, rooted in the public sector but growing through private sector participation, can encourage and expand the region's freight corridors to enhance economic competitiveness. I just fear we may all be making the same speech in 15 years. ■

What is . . . A Bonded Warehouse

A U.S. Customs bonded warehouse is a secured area in which goods subject to duty may be stored, manipulated, or undergo manufacturing without payment of duty. The bonded area of a warehouse must keep products separated from unbonded or domestic products. All goods subject to duty can be entered into bonded warehousing, with few exceptions, such as perishables and explosives.

When the goods enter a bonded warehouse, they are placed under bond (up to five years) until they are released from the warehouse. During that time, they can be repackaged, reexported, or simply stored until a later date to be imported into the United States (thus delaying paying duties). Normally the warehouse operator gives a bond or bank guarantee to ensure that there is no loss to U.S. Customs if the goods are accidently released from the bonded area. This bond is cancelled when the merchandise is removed from the warehouse. The merchandise stored in bonded warehouses is inventoried and records are audited regularly by U.S. Customs. To establish a bonded warehouse, a proprietor must make a written application to the local customs port director.

The same concept can be applied to a specialized set of bonded warehouses. For example, the London Metal Exchange (LME) licenses its own system of bonded warehouses to store materials traded on its exchange. When a producer has a surplus, it can deliver material to an LME warehouse and receive warrants that can be sold through a broker to

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ment in June of 2007. The Panamanian government approved the agreement in July 2007 and in April 2011 the government of Panama reconfirmed its commitment by improving tax transparency and domestic tax laws to make the treaty more palatable to the U.S. government.

With the implementation of the trade agreement, 87 percent of U.S. exports will become duty-free immediately, while the remaining tariffs will be phased out over ten years. (Some of the products that immediately become duty-free are agricultural and construction equipment, aircraft and parts, medical and scientific equipment, and information technology equipment.) The FTA also allows U.S. firms more access to Panama's $20.6 billion services market.

In 2010, only 7% of Panama's exports (external to the Canal traffic) were exported to the U.S., while only 10% of Panama's imports arrived from the U.S.

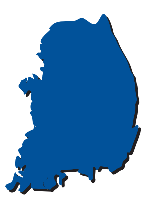
In 2010, the U.S. exported over $6 billion in goods to Panama, led by trade in petroleum and coal (40%), transportation equipment, computers and electronics, and chemicals. (Exports to Panama tripled between 2005 and 2010.) Imports from Panama included over $131 million in reexported goods (largely from to the Colon Free Trade Zone).

There are several areas of growth in the Panamanian economy. Many of the sectors, such as construction equipment, building materials, and automotive parts, will experience an increase in demand from not only constructing the Canal expansion but from other large building and infrastructure projects. Furthermore, consumer-oriented agriculture, which includes snack foods, processed fruits and vegetables, and dairy products, should see strong growth. Approximately one-fourth of the total market size for these products was being served by imports from the United States in 2010.

After two years of Panama's slower rate of growth (but still positive and above the U.S. average), the rate is expected to resume as the Panama Canal construction advances. Retiring baby boomers and immigrants from South America and Europe have been feeding the construction growth, and as a result, there is a growing demand for building products for modifying existing structures. Housing projects, new hotels, and related infrastructure will continue to generate strong demand for building materials.

Exports By State of Origin to Columbia, Panama, and South Korea, in Millions of U.S. dollars, 2000 and 2010

	Columbia		Panama		South Korea	
	2000	2010	2000	2010	2000	2010
Alabama	34	154	7	15	180	587
Arkansas	5	33	2	5	91	145
Florida	922	2,522	359	1,249	299	465
Georgia	87	267	44	213	252	632
Kentucky	29	67	6	14	111	482
Louisiana	395	728	117	361	582	1,656
Mississippi	13	233	15	710	55	72
North Carolina	77	184	15	57	416	607
South Carolina	35	145	7	46	148	377
Tennessee	49	298	20	38	179	557
Virginia	38	81	16	30	215	379
West Virginia	12	17	-	1	115	109
Regional Total	1,696	4,729	609	2,739	2,642	6,068
US Total	**3,689**	**12,069**	**1,609**	**6,063**	**27,092**	**38,846**



U.S. – South Korea Free Trade Agreement

Free trade negotiations between the United States and Korea began in February of 2006. President Obama announced in December 2010 that a resolution had been reached regarding a few outstanding issues in the agreement, effectively eliminating tariffs on over 95 percent of consumer and industrial goods within the next five years.

The FTA between the U.S. and Korea is the largest free trade agreement Korea has ever signed; it is also the United States' first FTA with a major Asian economy and the largest free trade agreement for the United States since the North American Free Trade Agreement (NAFTA) in 1992. Korean entities had $15,213 million of foreign direct investment in the United States in 2010, which included the opening of a Kia plant in Georgia. The U.S. International Trade Commission estimates that the U.S.-Korea Agreement tariff cuts alone will increase exports of American goods by $10 billion to $11 billion, will secure tens of thousands of American jobs that are supported by exports, and America's economic output will grow more from this agreement than from the U.S.'s last nine trade agreements combined.

In 2010, 10% of South Korean exports were destined to the U.S., making the U.S. South Korea's second largest export market behind China. The U.S. was also the third leading source of imports (behind China and Japan), accounting for 10% of the South Korean import traffic. In 2010 the U.S. exported nearly $39 billion in goods to South Korea, led by machinery, chemicals, computers and electrical products, and transportation

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ITTS CALENDAR

This list highlights upcoming conferences related to transportation that may be of interest to the ITTS member region. For any corrections or suggestions, please contact Bruce Lambert at bruce@ittsresearch.org

⊕ ITTS speaking engagements

November 30-December 2, 2011
35th Annual Conference on the Caribbean and Central America
New Orleans, LA

December 5-7, 2011
Transportation Research Board- Strategies for Meeting Critical Data Needs for Decision Making in State and Metropolitan Transportation Agencies
Irvine, California

January 19-20, 2012
Shifting International Trade Routes
Tampa, FL

January 22-26, 2012
2012 TRB 91st Annual Meeting
Washington, DC

February 7-8, 2012
2012 Georgia Logisitcs Summit
Atlanta, GA

February 15-17, 2012
World Trade & Transportation Conference
New Orleans, LA

Sunday, February 26-29, 2012
2012 AASHTO Washington Briefing
Washington, D.C.

March 15-17, 2012
53rd Annual Transportation Research Forum
Tampa, FL

June 4-7, 2012
North American Travel Monitoring Exposition and Conference (NATMEC): Improving Traffic Data Collection, Analysis, and Use
Dallas, Texas

FREIGHT IN THE SOUTHEAST
Moving Our Region's Business

Save the Date

March 14-16, 2012 – Norfolk, VA

(Please visit http://www.ittsresearch.org/itts_conferences.html)

If you are interested in partnering opportunities, or wish to participate in the organizing committee, please contact Bruce Lambert.

What Is… A Bonded Warehouse

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receive the current LME price. Conversely, if there is a shortage of material, warrants can be purchased through a broker at the current LME price and take immediate delivery. The LME system of warehouses functions as a delivery option of last resort that encourages convergence between the physical market price and the LME cash price. The result is that the physical industry and investors can be confident LME prices provide an accurate picture of market supply and demand.

LME warehouse are usually located in areas of high consumption with access to infrastructure, such as container terminals, berths of minimum draft, highways, and railroads. Currently Louisville, Mobile, New Orleans, and Owensboro are the only areas in the Southeast with LME warehousing, but there are plans to license warehouses in Charleston. ■

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equipment. In 2010 the U.S. imported nearly $48.9 billion from South Korea, led by computers and electronics.

The FTA should provide opportunities for U.S. farmers, ranchers, and manufacturers seeking to export to South Korea's 49 million consumers in two ways: by eliminating duties charged when U.S. exports come into South Korea; and by addressing non-tariff barriers to U.S. exports. It opens South Korea's $580 billion services market to more American companies, such as engineering, legal,accounting, education, and healthcare. The U.S. and Korea agreed to a number of significant improvements that will enhance market access for U.S. auto companies by addressing the way South Korea's system of automotive safety standards and proposed South Korean environmental standards served as barriers for U.S. exports. South Korea's GDP is expected to grow around 5% annually through 2016, according to IMF forecasts. The leading sectors are centered on areas of technology, specialty chemicals, and pharmaceuticals.

Implications on Alliance Region

Every state in the Southeast currently trades with each of these three nations. Given the importance of the Miami airport as Latin America's principal freight hub, it is no surprise that it leads most southern states in exports to Columbia and Panama. Regarding South Korea, Louisiana benefits from the large volume of grain exports through its deepwater ports. For each of the states in the Southeast, exports to the three nations have dramatically increased over the past ten years. Roughly 40% of the exports to Columbia originated in the Southeast, while the figure is 45% for Panama. For South Korea, with its heavily traded activity on the West Coast, the region only accounted for 10% of all U.S. exports.

Clearly, any growth in exports should result in some traffic passing through a gateway along the Alliance Region. The Alliance region benefits from its proximity to markets in Panama and Columbia. (For both countries, regional gateways handle volumes destined for locations outside the Southeast!) For both Panama and Colombia, roughly half of the regions' trade passes through the Miami customs, while Mobile, New Orleans, Tampa, and Savannah round out the top five gateways. The majority of the South Korean trade will likely pass through a West Coast port, with the notable exception of some air cargos and grains, although there is a large volume of containerized cargos that transit the Panama Canal to regional ports. For all three agreements, transportation will play critical roles in further supporting the success of U.S. businesses abroad. ■