

U.S. DEPARTMENT OF THE TREASURY

Press Center

Transcript of Secretary Paulson and Governor Schwarzenegger Roundtable on Trade Long Beach, Calif.

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RANDY GORDON: Good morning, welcome to Long Beach. My name is Randy Gordon, I'm the President and CEO of the Chamber here. And on behalf of our mayor, Bob Foster, and one of our most famous residents, former governor George Deukmejian, I want to welcome you to this exciting summit, Building the California Economy. Our Chamber is pleased to be one of the sponsors of this event today. I want to thank our other sponsors, the LA Chamber, the Southern California Leadership Council, and the Los Angeles Economic Development Corporation.

It's my sincere pleasure to introduce someone who doesn't really need an introduction, and someone who really understands how to build the California economy, and he understands trade, commerce and infrastructure, and he's a great friend of business. Would you please welcome our Governor, Arnold Schwarzenegger. (Applause)

GOVERNOR: Thank you very much, Randy, for the nice introduction. You must have had a couple of cups of coffee already, right? Yeah. That's very nice, I like that. He's all pumped up. And I want to thank all of you for being here today, this is really terrific.

And I want to thank Secretary Paulson for being with us. He has just come back from China from a trade mission, and is trying to strip away some of the trade barriers that are still existing. And he obviously has done a great job, because I've seen him happy ever since he landed here.

And also yesterday we did a wonderful event up in Stockton where he talked and addressed the sub-prime crisis that we are facing, and are in. And I just want to say, Mr. Secretary, that you have done a spectacular job yesterday. It's really amazing to see a room of around 200 people that were homeowners that are in trouble with their mortgage rates and with all of this mess that we are in, and he really made them all feel comfortable and good, and they all walked out and really felt like the federal government is on top of the situation. And so we really appreciate you making such a great effort. And also to be here today, and to talk to us a little bit about infrastructure and about trade, and the things that we can do. So thank you very much.

And I want to thank also Governor Deukmejian for being here today with us, and Senator Lowenthal is here, and then Assemblywoman Karnette and Mayor Foster, thank you very much, a great mayor. And Mayor Dellums, my buddy here, my pump-up buddy here also with us, coming all the way down from Oakland. And of course we are talking a lot about Oakland, because you have a great port up there, so we're going to talk about that. And Secretary Bonner is also with us. Where is the Secretary? Right over here, yes. Thank you also for being here. And David Crane is also here with us, thank you very much. I thank all of you again.

The Secretary is going to talk about stripping away some of the trade barriers, which is going to be advantageous and great for the United States, but it's also going to be great for California, because that means more trade for us. And as you know, that last year alone we had exports of 128 billion dollars worth of goods, and that is staggering. And I think that the more we strip away some of those obstacles, trade barriers, I think the more business we will do and the more exports we will have. This basically represents -- you know, in our ports in California, Oakland and Los Angeles and San Diego, we bring in 40 percent of the cargo that comes into the United States, comes through our ports, so it just shows to you. And I think that we have a great chance to increase that amount.

The only thing, I think, that we have to really pay attention to is to build the infrastructure so we can get our goods off the ports much quicker. And we have a major problem. I think that our trade is a very important part of our economy, and I think that in California there are around 2 million people that are employed, that are trade-related in one way or the other, if it is moving goods or managing goods, or distributing goods and so on. But we are not operating right now with all 12 cylinders, that's for sure, and I think it is because we don't get the goods off the ports quick enough.

And this is why in my January 2006 State of the State Address I challenged the Legislators and the people of California that we should start rebuilding California, because we have to face the fact that California has not built for the last 30 years. We did not keep up with the population growth. Our infrastructure that we have right now is for 18 or 20 million people, but sure not for 37 million people, if it has to do with transportation, or our schools, universities, our levees have not been fixed for all these years. So I think that it was really great to see

in 2006 the Legislators make a commitment to start rebuilding California, and to make the commitment and then to send this in a ballot to the people. And the people have made also a commitment of 42 billion dollars in infrastructure bonds.

So now we are moving forward with all this. And the great thing is not only that we have broken records in as much of the commitment that we made to rebuilding California, but also in how quickly the money is being appropriated. 8.4 billion dollars has already been appropriated. And we are already building, and we are full steam ahead with rebuilding California, the roads, transportation, schools, and so on, and also fixing the levees and so on.

But the reality of it is that if we really look closely at California, it is so far behind with the infrastructure that we need actually 500 billion dollars -- all of our agencies come up with the number 500 billion dollars -- to really rebuild California. Now, we all know that that money cannot be raised through our bonds or anything like this. There's no way that our government can take on that challenge. And this is why we are now looking into, and I will be talking more about that in my State of the State Address, which is what I call P3, which is public-private partnerships. This is where the action is. A lot of money is out there in the private sector, and we are going to push for public-private partnerships, because it's the only way we're going to raise that kind of money and really rebuild California fully.

I think the 42 billion dollars, plus the 8 billion that we made in the commitment in rebuilding our prison system, the 53,000 new beds, which makes it altogether 50 billion dollars. And let's say we get the water bonds done, which is another 10 billion dollars -- because we are right now negotiating for the water bonds to rebuild the Delta and the ecosystem up there and to get a better delivery system and more above and below the ground water storage. All of those things are being worked out. But that will be another 10 billion dollars. Now we would have 60 billion dollars, but not 500 billion. So I think through public-private partnerships we will be able to do that.

And we have seen in Europe very successful public-private partnerships, we have seen it in British Columbia and in Vancouver, where they have wonderful public-private partnerships, or P3 as I call it, where trade is happy, the trade unions are happy, the private sector is happy, the politicians are happy, the people are happy. So it's a win/win situation. That's what we want to do also in California.

So with that I just want to say that I have great hopes that we can get this moving forward. It is my responsibility as the governor to make sure that this Golden State stays the Golden State, and that we move forward, and that we can really live up to the fullest potential, 100 percent of the potential, in our economy. We have a great economy, and the only hiccup we have right now and the bump in the road is the housing market. But we are going to overcome that, and that's why it is also very important that we pay a lot of attention to trade.

So with that, I just want to say again thank you all for being here today, and I want to hand it over to Secretary Paulson now who is going to talk more about trade and about the economy and about public-private partnerships. Thank you very much. Secretary? (Applause)

SECRETARY PAULSON: Thank you very much, Governor, and it's an honor for me to be here with you. And as I look around this table at all of these illustrious figures, let me remind you all that I'm relatively new to the political process, I've got a lot to learn there. I've spent a lot of time focusing on economic issues and focusing on markets, and one thing I've learned since I've been in Washington is Democrats and Republicans both have a very strong interest in having there be a strong America with a strong economy. It creates more and better jobs. And so we're all united in that.

And we have today a healthy economy, as the Governor said, in America, in California, but we've got some challenges. I believe the economy is going to continue to grow, but it's my job as Treasury Secretary to focus on the challenges, the turmoil in the credit markets, the housing downturn, and do everything we can to minimize the spillover into our economy overall. And so we're focused on that.

And as the Governor said, we were together yesterday in Stockton. Before going to Stockton I was in Kansas City, Missouri, and before that in Orlando, Florida. And the focus was on housing, on the downturn, promoting a plan which will prevent a market failure in the sub-prime area, and keep people in their homes wherever it's possible to do so. So there's a big focus on that. There's no doubt that the housing problem, the problems in the credit markets, are going to be a drag on our economy for some time.

Are there strengths? As the Governor said, one of the real strengths is trade and exports. There is a strong global economy, markets are growing around the world, and our exports are increasing. And you know, when I'm in this state it just reminds me all the time that our businesses and workers are the envy of the world. In industry after industry after industry, we set the standard, we innovate, we create, we define the future. And that's particularly so in California. So it's very important to stick to the principles that have made us great. And as the Governor said, that means fighting to open up markets for our products, our goods and services around the world, and keeping our markets open.

Now, I talked about the challenge we face in the credit markets and in housing. There's another challenge we face in the U.S., which is also a serious challenge, and that's the challenge of protectionism. And it's really ironic that at a time where we are more dependent than ever, and prosperous in terms of our trade, that some people are beginning to question the economic principles that have made this country great. And even some economists are somehow or other it's becoming fashionable to recant economic principles, and say maybe there's a different paradigm we need in this age of globalization. But trust me, globalization has not reversed economic gravity. Isolationism doesn't work, protectionism doesn't work. Your governor knows this, all of you know this, California knows this.

I was looking at some statistics, and I'm sure the numbers are much better today, but in 2005 there were 51,000 companies in California that exported into the global markets, and that's why I know your governor is making such a big emphasis on infrastructure, which is absolutely critical. But of those 51,000 companies, 95 percent of them employed 500 or fewer workers. So again, this is not just the

Fortune 500 companies; this cuts across various industries and companies of all sizes in California. And so again, it's just so critical not to be isolationist, not to be protectionist.

Now, President Bush has been a real champion of open trade, open investment, competition, economic dynamism. He signed a bill last week which was a very, I think, a very noteworthy agreement, the free trade agreement with Peru. And the reason I say it was noteworthy was this had bipartisan support, strong support from Democrats and Republicans in Congress, and it was the first of four free trade agreements. And we now need Congress to move quickly and to enact, so that the President can sign, the next three, and those are Colombia, Panama, and Korea.

Now, Colombia, President Uribe has got some tough challenges, he's making some tough decisions, he's making progress, he deserves our support.

Korea is the eighth largest economy in the world. In 2006 California exported more than 7 billion dollars of goods to Korea. But you've just begun to tap that potential, and the free trade agreement would help you do so. And again, I'm not talking about economic theory here, I'm talking about what can be proved. We took a look at two free trade agreements which were signed in 2004, Chile and Australia, and looked at the impact on California. Since the Chile FTA was signed in 2004 California exports to Chile have gone up 150 percent. Since the Australian agreement was signed exports have gone up 25 percent. So as the Governor said, these trade agreements help break down barriers, open the way for the export of U.S. products, California products. So they're very important.

Now, the Governor mentioned China, and I got back from China very early Friday morning. And as a matter of fact, when I woke up this morning, I woke up very early, and I said to my Chief of Staff, Jim Wilkinson, I said, "You know, I feel like I'm in China. I'm a little bit jetlagged." And he said, "Well, be careful not to call for California to appreciate their currency." Because, as the Governor said -- well, first of all, to step back, I want to tell you the obvious about China.

China is an economy which is very important to California, because your exports to China are growing very quickly. So this is an important market. Now, I understand China is a tough political issue, partly because of the things they do, actions they take, but partly because China has become a symbol for the fears surrounding globalization. But when I'm in China -- and I was, as I said, in China very recently, leading a delegation for our Strategic Economic Dialogue with top officials in China. And when I'm there, I make the case that they need to continue to open their markets and appreciate their currency so that it really reflects economic fundamentals. And I make the case that they need to speed up the process of reform. It's in their interest and it's in our interest, and it's in the whole world's interest.

Now, there's a fair amount of tension in the U.S./China trade relations, but it is very, very important that we keep this relationship on an even keel, this economic relationship. It's too important. We need to continue to build trade, particularly now, work to open the markets, because China is our fastest growing market for exports, and a healthy Chinese market economy is very important to the U.S., just like a healthy U.S. economy is very important to China.

So, in summary, let me say that in my 32 years in markets it was really clear to me, the overriding lesson, and it was that those countries that weren't afraid of competition, that opened themselves up to trade, competition and trade, investment and finance, benefited, and the rest of the world, others were left behind. And opening yourself up to this competition leads to innovation, it leads to better jobs, more jobs, it leads to a higher standard of living. There are many benefits. It produces an economic dynamism which you can just feel when you're out here in California. It must be something in the air, and there's just this economic dynamism. But economic dynamism brings with it rapid change, and in some instances hardships and job losses. There's no doubt about it. But what we need to do is figure out how to deal with the job losses that come from trade, which are very visible, and make sure that we don't turn protectionist, because the benefits of trade are reflected broadly across an economy with more better jobs and a higher standard of living for the people of this state and the people of our country.

So again, what I would just encourage all of us to do is to fight protectionist sentiments, encourage your Representatives and your leaders in Washington to support trade agreements, free trade agreements with Colombia, Panama and with Korea, and encourage the U.S. to continue to trade freely, openly, and according to the principles of the global marketplace. So with that, I again look forward to the discussion, look forward to talking about some of the issues that the Governor raised.

GOVERNOR: Thank you very much, Secretary. Really appreciate your thoughts. (Applause)

And now next I would like to have Mayor Ron Dellums say a few words, because Ron is a great mayor of Oakland, and faces a lot of challenges, but has taken on those challenges and has been a great partner in the State of California. Of course that's one of the ports that are very important in order for us to be competitive and to increase trade and to fix the infrastructure. So he has been really terrific. And also, terrific in bringing tourism back, because he's fighting gang violence, which is so important, because people are always scared of when there's violence in the town, and people don't show up as much. But he has been doing a great job in fighting the gang violence and turning the whole thing around, the whole city around. So it's great to have you here, so please say a few words. (Applause)

MAYOR DELLUMS: Thank you, Governor Schwarzenegger, to the distinguished Secretary, to my distinguished colleagues. First I'd like to thank the Governor for hosting, and the various entities for sponsoring this important conversation, because to me this is a recognition that there are significant challenges that we must ultimately wrestle to the ground. It is also a recognition that unless we engage in unprecedented public jurisdictional collaboration, from the local government to the state government, to the federal government, until and unless we engage in creative and appropriate public-private partnerships, and until and unless we think substantively, we think coherently,

we think comprehensively and we think strategically, that we engage in the long view and the broad perspective, that there ultimately will be consequences, perhaps unintended, but those consequences will manifest themselves in economic terms, in environmental terms, in quality of life terms, particularly the public health of our people, and in a post-9/11, post-Katrina world, from the standpoint of safety and security, these issues will be significant.

The good news is, here we are in California. Our ports, we're the gateway to the rest of the world. We handle 43 percent of the container activity in this entire country. By 2020 that will increase by a factor of 3. That's the good news. The downside of it is, question: Can our rapidly deteriorating infrastructure handle that level of incredible and significant growth? What will manifest itself in terms of the environmental consequences in a global warming environment? How will we deal with the quality of life issues and the public health issues of people who are being harmed daily by the infusion of toxics in our air? And given the fact that we're presently dealing with hometown and homeland security issues in 2007, when we move to that order of magnitude, we multiply the safety and security issues. All of these matters must be dealt with.

Finally, I would just say remember, if we're going to be a globally competitive economy, there must be a significant investment in education, in research, and in infrastructure. And so I welcome this conversation, because I think it is important and significant. And Governor, I would yield back to you, thanking you very much for the opportunity to speak and be invited to this august body. (Applause)

GOVERNOR: Thank you very much, Ron, wonderful. And now Mayor Bob Foster, who is another great mayor and great partner of the State, and has done an extraordinary job for the City of Long Beach. Thank you very much for being here today. If you have a few words, please?

MAYOR FOSTER: I do. Thank you, Governor. I want to thank you and Governor Deukmejian, and Mr. Secretary, and Mayor Dellums. Thank you for being here today, thank you all.

I just have a couple of remarks to sort of set the context for the discussion that will follow. The ports are essential for the economic vitality of the State of California, and I want to just give a little bit of historic context.

In the early '90s Southern California in particular was actually at Depression-level conditions. 50,000 defense and aerospace jobs left this area. Here in Long Beach the Navy withdrew, and this place was in very severe economic times, very difficult. And what eventually replaced that in large part were two things. In large part it was the international commerce from the ports, international trade, and tourism here in Long Beach. And what is essential to make sure that we continue to be able to have the economic engine of international trade, and have the ports thrive are two things:

One, we're going to have to improve the infrastructure in these ports, and that's going to take billions of dollars. We need to move a greater quantity of goods at greater velocities.

But equally important, we have to also understand the environmental consequences of that goods movement. And I'm happy to say that the Ports of Long Beach and Los Angeles have worked cooperatively together, they've adopted a principle I have advocated and they have now adopted, which is they're going to link infrastructure improvement with environmental improvement, so that we now have a plan, between the two ports, to clean up the air by 45 percent over the next five years. And this week the Port of Long Beach took the action to make sure it has the resources necessary, the funds, to be able to implement those plans.

So we've done an awful lot to grow green and grow smart. Quite frankly, that's the only way these ports are going to grow. They're going to have to be sensitive to the environment, and make things cleaner than they are, even with the growth of commerce.

But the infrastructure needs are next, and we're going to look at that, and I think the resources are going to be available to the ports to do that as well. But things like public-private partnerships are crucial. I do agree with Mr. Secretary. I think international trade and globalization provides a more flexible and vibrant economy. I think it also makes it more immune from a tax, from an economic assault, if you will. If you look at what's happened in the last 10 years in terms of economic impact, our economies have really withstood them with relative ease. I think that's in large measure because it's a much more flexible economy because of globalization.

Public-private partnerships are an essential part of building infrastructure here in Long Beach where we have two projects. One, a new courthouse that we're looking to engage in a public-private partnership on, and secondly a civic center that we are in the process of examining a public-private partnership. It's the way to be able to build facilities more quickly and more cheaply.

So what I'd like to do is throw this open for discussion. And let's talk about infrastructure, let's talk about how we get things built, and built both in an environmentally sound way, but also in a way in which we can minimize the expense on the public side and maximize the increase of infrastructure. What I would ask you to do when you want to speak -- since we can't all see the name tags, I certainly can't. I only have one good eye anyway -- if you would just announce your name, I will call on you, announce your name, we'll have a discussion about this, and I'm sure the Governor will jump in, and the Secretary will jump in whenever they care to. So on the subject of goods movement and with public-private partnerships and infrastructure, I throw it open to conversation.

GOVERNOR: Well, I'm Governor Arnold Schwarzenegger. (Laughter) And I just wanted to say that I think that you just hit the nail on the head when you said that while we create the infrastructure and while we increase trade, we also have to think about the environment,

because I think this is absolutely essential, because we cannot go, continue on down that road that we have been, which is to just expand the economy, but not really take care of the environment. We can do both. I think we have proven this last four years that we can do both. I think that Long Beach and L.A. just have proven that by making the commitment that we can do both. I think it's all about where there's a will there's a way. That's what this is about. And I think if we all make a commitment we can be the leaders and show the federal government, actually, how it's done. And I think that California has done a great job with that, and has been known now worldwide that we are taking this very seriously. Anyway, any questions to the Secretary that you may have, please.

Q: (IA) the regional expansion of commerce in Long Beach. Mr. Governor, great to see you here, Mayor, everybody else. At (IA) we work with small entities, small business, the minorities, the disadvantaged. We also trade a lot in looking to trade and work with the ports. And green -- the environment is a concern to everyone. The thing that we're able to do with the Chamber of Commerce is bring everything to the local level, to the individuals, to the families. There's a lot of small entities here, both individual family members, small one-time owners, and larger families and larger businesses that are part of this. And we're reaching out as Latinos, where it's a growing mass, it's a number. Right now it's our turn in the drum. We're up because of the numbers around the state, not only the state, across the United States.

All this has to do with voting. Everything comes down to people, and we're trying to get, educate the communities, the individuals, from down at the little schools, down to high schools, down to the refineries have an issue, the railroads have issues, and it's all great because we all want to live -- we all live here, so we have to share the space. And it's all very important. And the thing is, we have to get education out there, we have to get people out and informed and we're working hard to do that. And I think if we could get it down and get the small streams out we can inclusively include everyone and become a large force and have everyone involved, and have everyone educated. Because I think the biggest problem, obstacles that we tend to see, is ignorance. People just assume it's bad, or it's corporate, it's this, it's that. And this is a global, but this is a state issue, this is a world issue. Green, we need to be green.

Union Pacific, the ports, everyone is being involved, because we're trying to lead the way. California, set apart from the state, the United States, sets the pattern, sets the tone. And we're here, and hopefully we can all unify and get on the right project. But the thing is we need to share, and we need to hopefully educate everyone so everyone can understand the reason and the return in the long term is for our families, for our kids, and for the state. Thank you.

GOVERNOR: Thank you, Tony.

SECRETARY PAULSON: Governor, let me make -- because we've all talked about being green -- make a comment about being green and the environment, because this is an issue I've cared about for a long time. And of course when we talk about the climate and emissions, this is a global issue if I've ever seen one. And a ton of carbon in the atmosphere from China is every bit as harmful as one from California or New York, or anyplace else. So it's a global issue.

And one thing that I don't believe was reported as maybe as comprehensively as it might have been, that one of the positive outcomes from Bali was that -- and I think this is largely as a result of the President's major economy initiative -- that getting developing countries for the first time getting China, India, and Brazil to make some undertakings and commit to take some actions, because again, we can't solve this issue unless we do it globally. And a lot of this is going to be engaging the developing world, and a lot of it is going to be about developing clean technologies. And we talked about trade today, but I spent a fair amount of time in China working with them on environmental issues, talking about clean technologies, collaborating.

One of the things we agreed to do with the Strategic Economic Dialogue is work, prior to the next meeting in New York, to come up with a 10-year program where the U.S. and China would work together and collaborate on energy efficiency, energy security and environmental issues and technology. One of the things the President has asked me to do is work with major nations around the world on putting together a clean technology fund to incent the use of technologies around the world. So again, it's a global issue, and air and water don't know any boundaries. So again, you've been real leaders in this state, that's for sure. And it's also, this is something, a battle that needs to be fought also globally.

GOVERNOR: Thank you.

Q: Mr. Secretary, I think the statistics are overwhelming for Southern California, if you look at what we need as far as infrastructure improvements, air quality, public health, public safety. I think everybody in the room knows it. Whether it be LAX or the two ports, we have a tremendous need. What we don't have, if the Governor said we're the Golden State, well, the airport and the two ports are the Golden Goose. Right now, without infrastructure and without funding, we are killing this state. Not only locally, statewide, but federal. This is the largest Customs district for the federal government. And without that revenue coming through, without ideas, whether it be for you as Secretary, or for your background at Goldman Sachs, we would like to know what suggestions you may have, because we have over a 50 billion dollar deficit in the next 10 years for infrastructure in Southern California for the airports and the ports, just to get the commodities in. So we'd like to hear from you, maybe. Do you have specifics? Because we need them.

SECRETARY PAULSON: Let me first of all say I am the Treasury Secretary, not Transportation Secretary. And so as Treasury Secretary I've been focused on other economic issues, trade issues and so on. But I'm going to draw on my experience in the capital markets and working around the world, and working on infrastructure finance, and so on. And I would say I think -- I don't know the details of the

Governor's plan. I just heard him outline P3. But I think he's got it right, because the fact is that there's no way government is going to be able to pay for the infrastructure needs you've got. And there are plenty of models around the world. When I think of some of the major port facilities in Hong Kong and in China, and I look at how those have been financed with private capital.

The key, though, is designing the project properly, having there be clear projections. The private sector needs to know that the risks are manageable, and that there aren't going to be political risks, where people will come in afterwards and say you're making too much profit. And it's fascinating, because as I travel around the world, infrastructure is the biggest problem in many, many places in terms of the biggest obstacle that democratic capitalism faces, or capitalism faces, in terms of spreading the benefits of growth broadly to the people. In Latin America it's a big issue, in India it's a big issue. And so designing these projects properly so that they attract the private sector, I think is key. And there's plenty of money out there, so it's all in how these projects are structured.

MAYOR FOSTER: Tim Romer, and then Assemblywoman Karnette.

TIM ROMER: Hi, my name is Tim Romer, I'm in the infrastructure group at Goldman Sachs, and just want to make a couple comments on the public-private partnerships. But again, if you sit here and you listen, you really have to think differently given the size of the problem in terms of the new capacity we need to build. And you want to think differently about how you deliver the infrastructure, but also about how you maintain it. And I emphasize both, because it's not just the upfront cost, but it's the cost of the life of these projects that's very important. And if you do this in the right way you can extract savings and benefits on both ends, so you can do more, you can do it sooner, and you can do it in a green way.

And when you think about public-private partnerships, what you're really trying to do is, you're really trying to tap into the global expertise, the global innovation out there of the private sector. People are doing this around the world. They have experience, they can bring it to bear to help get these projects done sooner. There are examples here in the U.S. The Miami Port Tunnel went through a public-private partnership process. They looked at what the government thought they could do it for, they got three bids from three consortiums. The delta between the high and the low was over 40 percent. A private sector entity came in there and thought about a different way to do it.

And when you think about it, why is that? Well, when you think about it, they can think differently about how to design it so they can build it cheaper. They think differently how they build it, so they can operate it cheaper. They think differently how they operate it, so they can maintain it cheaper. And then they can bring the capital and the financing to bear to get the project done sooner. And when you think about it, you've got to emphasize the partnership aspect of this, which I think is what the Secretary was getting at. You can't take a project that's unviable and think the private sector is going to make it viable. You need to think about it. The stakeholders need to sit down, they need to agree on the projects, they need to agree on the goals. They need to align the incentives amongst all the parties, because it is a partnership. And then you've got to share the risks, and there are risks that the private sector has an infinite capacity to assume. They're willing to do it, they're eager to do. And by doing this you do get, I think what the goal is here today, which is you want to get it done sooner, you want to do it for less, and you want better service over the time and the life of the project. And so I think public-private partnerships won't solve all the problems, but they're a key component that we have to facilitate, and we have to allow work in the marketplace here in California.

SECRETARY PAULSON: Can I make one other point, which has to do with protectionism? There's protectionist sentiment in terms of trade, and there is also protectionist sentiment in terms of foreign investment. I view foreign investment as the ultimate vote of confidence that any country can pay to our economy. But when you think back, this is not new in America, but I remember back -- do you remember back in the '80s and the early '90s, and you remember when the Japanese -- it might have been Pebble Beach, and people were very concerned. Or when the Rockefeller Center -- I remember having to explain to someone, you know, the Japanese aren't going to be able to put Rockefeller Center on an aircraft carrier and bring it to Japan. They've invested in it, we still have the Rockefeller Center.

Well, right now -- the reason I mention this is there is foreign capital that is interested in infrastructure finance. And in a number of states where governors -- or at least one state I can think of that did a big infrastructure financing project, and there was an Australian bank that came in. There was great public concern about it. So that's the other issue, because I think you can attract foreign capital, but you've got to ask the question, how will the public look if foreign capital is invested in your ports or other things? So in any event, it's an issue.

ASSEMBLYWOMAN KARNETTE: Shall I go?

MAYOR FOSTER: Yes, Betty. I'm sorry.

ASSEMBLYWOMAN KARNETTE: Thank you. I never hesitate. I'm Assembly Member Betty Karnette, and most of you have seen me and heard. I've been here a long time, I've lived here a long time, and I've been around a long time. But I also, right now -- and I'm interested in the trade, and also the infrastructure, and how they relate to foreign investments and all that kind of thing. However, I represent California on a small group in the National Conference of State Legislatures, and just recently we discussed what some of the real serious problems are. And one of the things, when you want to get to specifics, we came out -- this was several states represented, I don't remember all of them -- but one of the things we all agreed upon is that before we can do anything, we've got to maintain what we have, and that the federal government, Mr. Secretary, would be the logical group to do that, entity, because of the sales tax on gasoline. However, there's not enough to do the maintenance that we need, and we really feel that, as states, that the federal government should really be looking at maintenance of what we have. And I have public partnerships, private-public partnerships, I've been supportive of ever since I chaired Transportation in the California State Senate, and I think that's fine. But we're got to maintain what we have; the bridges, the bridges especially. The one in Long Beach called the Gerald Desmond Bridge. And there are all kinds of things along this line that we

have to look at. And I think that I heard Mary Peterson, the Secretary of Transportation, but she seemed to think we the states should be giving her the ideas. Well, I'm giving her one, and I'm giving you one, and I'll be the Governor will give her some too. But that maintenance issue, we just can't handle all of that and the new infrastructure that's required.

SECRETARY PAULSON: I will pass that on to Mary Peterson.

MAYOR FOSTER: Alan Rothenberg.

ALAN ROTHENBERG: Thank you. Alan Rothenberg, President of the Los Angeles Board of Airport Commissioners, and I have a question primarily, I guess, directed to the Governor and the Senator and the Assemblywoman. Both for safety, economic and environmental reasons, we have to do a lot of things at LAX. And I am just curious to understand if there is any work underway to expedite the environmental process. We don't want to do anything that's not environmentally correct, and indeed the irony of delay at the airport is that the new aircraft that's coming on is quieter and pollutes less than the current fleet. And yet the process is torturous. It takes forever to get ready to go into the environmental process. I'm told that we face about a two-year study before something comes out of the environmental process. And if history is any predictor, somebody is going to sue us, and there will be further delay. Meanwhile, we're sitting there risking public safety, we're sitting there risking the continued growth of the economy, as has been discussed by everybody, because of the value of goods that come and go from LAX. And it's clear that I'm pretty frustrated; we all are. Is anything underway to come up with more expeditious ways to go through the environmental process to get projects of that scope approved?

GOVERNOR: Well, first of all, you're talking about California, the process in California, or federal?

ALAN ROTHENBERG: I'm talking CEQA. We do have to face federal as well, but right now the first barrier is CEQA.

GOVERNOR: Well, it shouldn't be taking two years, but maybe Secretary Bonner can address that. But the fact is that we're trying to speed up all of this. As you know, with infrastructure, one of the biggest challenges in building transportation infrastructure is that the people vote on the bonds, and then sometimes it takes five years for all the studies to find out how can you move forward and build, and can you, in fact, build. Well, we have speeded up that process, and we made agreements, which was part of the infrastructure negotiations, to speed up the process and to build. And this is why we have already built and have allocated and are funding 8.4 billion dollars in projects, which is the fastest ever, that less than a year after the people have approved it, we are already building and spending that money, which is great. So we're going to look into that also. But Secretary, if you maybe want to address that?

SECRETARY BONNER: Good morning. What I would say is, we are not looking at the moment, we were always considering how you can streamline the CEQA process. But building on the Governor's point, one of the things we're looking at in trying to better work with the process that we have is by having better coordination amongst the parties who are involved in getting the environmental reviews completed. And just not as much on the airport side, but on the transportation, the highways and the other infrastructure side, we have signed an agreement maybe two months ago with a number of the agencies that are involved with building some of the larger transportation projects, and they are going to be working with regional air quality agencies, the federal government and the state, to coordinate and try to streamline as much as possible the review process. But the law itself is one, as you know, that is very cumbersome, and we are looking at ways to work within the existing law before we are considering reforms of CEQA.

GOVERNOR: But I'm going to bring that to the attention of Secretary Adams and Secretary Nichols just to make sure. And I want to get your card so we can follow up on that. Thank you.

MAYOR FOSTER: John Hemmingway.

JOHN HEMMINGWAY: Thank you, Mayor. Our company, SSA Marine has been fortunate to do business in California ports for the last 107 years. And for the last dozen years we've been involved in port infrastructure development in places like Mexico, Panama, Colombia, Chile, Vietnam, and a number of other countries, so I appreciate the Secretary's remarks about the importance of free trade agreements with Panama and Colombia. It's vital to our leadership in the region.

In being involved in port infrastructure development, and most recently with pier paths here in Southern California, I've learned a lot about port infrastructure development models and public-private partnerships. I think I want to echo some of the remarks I've heard about frustration with the amount of process costs. As a company that's involved in building facilities like this and engaging with public entities, it's frustrating to us to see millions of dollars go to paper that doesn't really get read, and not go to the communities where we do business. And so anything that the Governor's Office can do to help with enabling legislation so that money goes more properly to meet higher standards, to mitigate community impacts and promote cleaner air is something that we in industry are all in favor of.

We do business in British Columbia, we're very familiar with the model there. We think it's one worth emulating, certainly. One of the advantages they have is a great deal of alignment between the provincial and local government. And of course your leadership will be vital to that. And of course any role that industry can play and help developing consensus, I think we've proved with Pier Pass and other programs down here, we're capable of doing our part too. So I'm very interested in hearing anything that industry can do to contribute to that effort. So thank you.

GOVERNOR: Thank you. Okay, we have time for one more.

MAYOR FOSTER: Alan Lowenthal.

SENATOR LOWENTHAL: Thank you. And I just want to comment a little bit about the process also. I've worked with Secretary Bonner and others in terms of how we're going to take the monies that the bond, the TCIF, the 2 billion dollars that Californians voted in 2006, under the leadership of Governor Schwarzenegger, to put into infrastructure for goods movement, and the 1 billion dollars for air quality. I think the thing that we are seeing is that one of the consequences of that bond is that we're breaking down the silos. That is, part of the problems with some of the air quality or maybe the CEQA process is that frequently people get involved in the CEQA process late. The project has been designed, and then the community gets involved. I think that what we're seeing with the bonds is that of all the new projects, we have linked and brought together both Secretaries of the EPA, Air Quality, and the Secretary of Transportation and Housing, to design it upfront. All projects will be designed right from the beginning, taking into account air quality so to speed it up. It will be part of the selection process and also part of the criteria. That's one thing.

The other thing is, to defend California, Mr. Secretary, to understand we do not only have a problem with global warming, which we are. We have, when we're talking about the environment, we have a public health crisis. We lose, in this region alone, 2,400 premature deaths a year due to old diesel technology. So we're talking about the need -- and the ports have stepped up, the state has stepped up, and that's what you're hearing, to immediately begin to change that technology, because we're not going to have community supporting what we want to do if they're dying, and that's what we've got to end.

And that's why we say there's a three-legged stool, and the rest of the nation has to understand that we provide them, we are the gateway to them. It is in their interest to protect California also, because we protect them. Or else we'll have a reoccurrence of what happened three, four years ago when there was the lockout and they couldn't get their goods in the rest of the states. If people want to benefit by this, we need to educate Iowa and Kansas and the rest that it is important that they help to support us, because we support them also at this moment. And I think that educational process has not taken place, and we don't have allies throughout the rest of the nation to understand our importance to them. And they don't understand it, they don't see the linkage between California, what we're going through, and the fact that they have goods on their shelves when they want those goods, and that's really what we're asking the federal government to help us in that educational process, and to make sure that this is the nation's priority, not just California's priority. We are doing service to the nation, and the nation needs to understand that.

GOVERNOR: Thank you. And talking about educational process and educating, I think it's very important that when we talk in our State of the State about public-private partnerships, and you hear P3, just remember that we need a lot of support. We need a lot of support. We need a lot of support from all of you, because we have to still do a lot of educating when it comes to the legislators in that area. There are a lot of legislators -- now, you maybe see two here that love it, but remember there are 120 legislators up there, and everyone has their own opinion about all of those things, which is terrific, which makes the world go around. Different opinions, love it. But there are a lot of them that do not understand public-private partnerships. I talk to them. They think it's a disadvantage. They think that it hurts the unions, or the workers, or that people will be put out of work. All of those kind of -- there's a suspicion there, and all of those kinds of things that we have to overcome.

And so what we need is, when we talk about that and try to move that ball forward this coming year, we need all of your support. Because I think the things that we have gotten accomplished here in this state is because of all of you. There are the legislators, the Governor's Office, there's the federal government. We all work together. But in the end it's you, the people that are in the trenches, the people that are in the communities, the people in general, that are our partners, that make things happen. So we want to just ask you again to be with us in this next year when we move that ball forward.

So thank you very much again, everyone. Mr. Secretary, thank you very much for being out here. Let's give him a big hand. (Applause)

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