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I MINA'TRENTAI SAIS NA LIHESLATURAN GUAHAN | 36th GUAM LEGISLATURE

Transshipment on Guam

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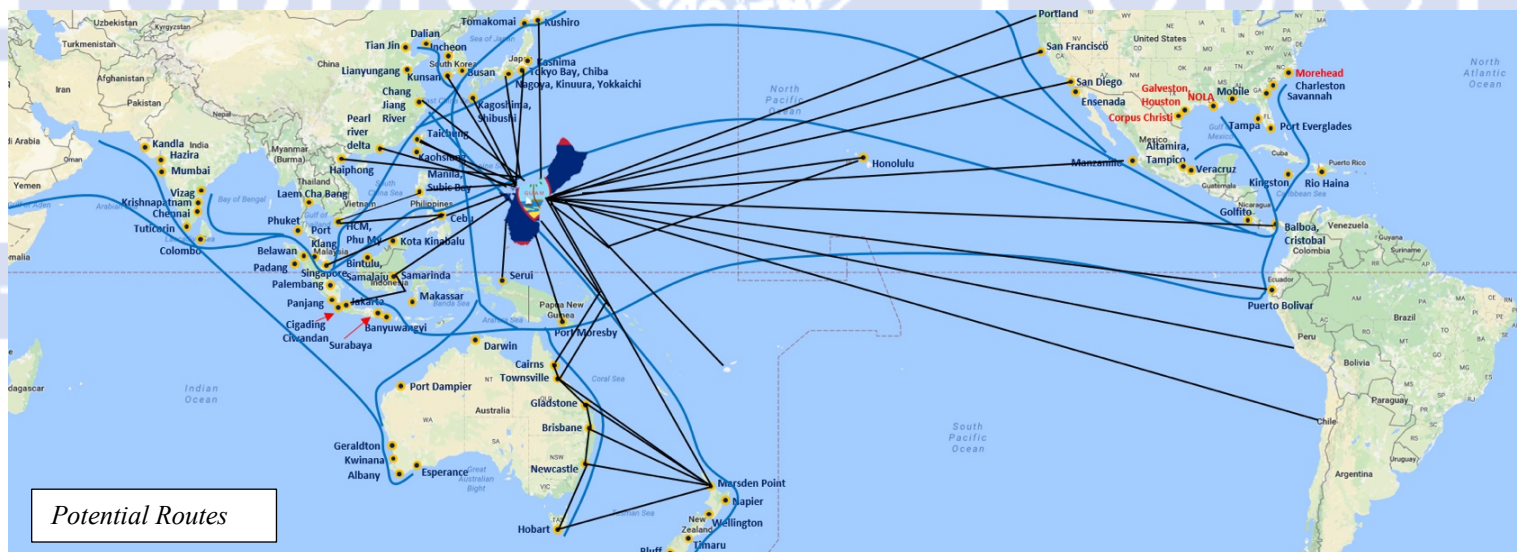
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Introduction:

The people of Guam are resilient. Having overcome world wars, centuries of colonization by three foreign oppressors, natural disasters, tragedies, as well as global pandemics – the people of Guam have been able to unite and rebuild. To address the economic devastation caused by COVID, the Guam Legislature recently passed Bill 2-36, which was signed by Governor Lourdes A. Leon Guerrero as Public Law 36-23 on May 12th, 2021. Based on reports by global stakeholders, in order to withstand future economic disruptions, a policy response is needed to address supply chain vulnerabilities in a post-COVID era.

Guam's Capacity to serve as a Transshipment Hub

Guam's economy is primarily driven by three sectors—tourism, government spending, and defense spending. Guam's economy was thriving prior to the pandemic. However, COVID-19 has caused the economies and supply chains in Asia and the Pacific to suffer immensely. According to a white paper written by the Guam Chamber of Commerce titled *Proposed Economic Diversification Initiatives for Guam*, the contraction of production and consumption led to a “slowdown in maritime trade, reducing shipping demand and port traffic and turnover.” The proposed transshipment solution demands a coordinated regional response to ensure the smooth operation of global supply chains and the health and safety of shipping-related personnel. According to former Governor Carl Gutierrez, Bill 2-36 (LS) will close critical gaps in Guam's economic recovery.¹ This solution urges the participation of both governmental and private stakeholders to efficiently sell and gain rapid access to consumers within the Asian market.



According to the U.S Department of Homeland Security, the maritime transportation system (MTS) is the “economic lifeblood of the global economy.” Moreover, Guam has the unique capacity of receiving more shipments in comparison to other ports in the Pacific. A notable advantage of the commercial port is its convenient access to the Antonio B. Won Pat International

¹ Gutierrez, Carl T.C. “Support for Bill 2-36 (LS), ‘Relative to Developing a Plan to Implement a Transshipment Industry Through the Creation of a Transshipment Task Force.’” Received by the Office of Vice Speaker Tina Rose Muña Barnes on 22 April 2021.



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Airport, allowing major airlines to fly to cities in the mainland from Guam. Furthermore, the Port Authority of Guam has the ability to move containerized, break-bulk, and fresh fish cargo. Not only does Guam have easy access to manufacturing hubs in the Asia-Pacific supply chain, but its strategic location also allows the United States to secure the defense of the nation and protect its allies. Furthermore, Public Law 35-105 has enabled the Guam Customs and Quarantine Agency to efficiently improve its procedures through automation and update its manifest requirements. This will contribute to Guam's post-COVID recovery by transporting goods into the mainland at faster rates. Public Law 35-105 will also improve operational and cost efficiencies while digitization and automation ensure maritime transportation remains uninterrupted.

Notably, the COVID-19 pandemic has negatively impacted Guam's shipping and port sector. For example, the United Nations Economic and Social Commission for Asia and the Pacific report, published on September 30, 2020, indicated that "any significant disruption to the MTS can have devastating implications for the global supply chain, as well as America's National Security. Thus, maritime elements of the global supply chain are considered by Homeland Security to be critical assets and systems that must be protected."²

The transshipment task force can play an active role in reactivating the MTS. Additionally, Public Law 36-23 encourages the U.S. to maximize the potential of Jose D. Leon Guerrero Commercial Port and A.B. Won Pat Airport to protect the MTS from vulnerabilities caused by the pandemic. Public Law 36-23 would further diversify the economy and assist in Guam's post-COVID recovery by increasing the production and sale of Guam-made goods; creating thousands of new jobs; injecting the financial industry with much needed liquidity, credit, savings, and assets; producing new revenue streams; and controlling reverse logistics costs. It would also support a sustainable initiative of green packaging and contribute to efficient delivery systems.

Regional Benefits:

With tourism at a standstill, Guam is presented with an opportunity to rebuild an even stronger economy, capitalizing on new industries that have not been tapped. One such opportunity is to return to our roots and utilize Guam as a transshipment hub. According to a recent report by the International Finance Corporation (IFC), logistics can contribute greatly to a country's productivity and economic development. In fact, the cost of logistics as a percentage of GDP can be up to 25 percent in some developing economies. Investment and increased efficiency in the logistics and transshipment sector can boost competitiveness and stimulate economic growth in emerging markets.³

However, the global economy was greatly impacted due to logistical challenges as a result of COVID-19.⁴ Supply chain disruptions have made a dramatic impact on competitiveness,

² United Nations ESCAP. COVID-19 and Its Impact on Shipping and Port Sector in Asia and the Pacific. Tech. Washington, DC: United Nations, 2020. Print.

³ International Finance Corporation. The Impact of COVID-19 on Logistics. Tech. Washington, DC: World Bank Group, 2020. Print.

⁴ International Finance Corporation. The Impact of COVID-19 on Logistics. Tech. Washington, DC: World Bank Group, 2020. Print.



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economic growth, and job creation. When ports in China closed in response to the spread of COVID-19, a backlog of containers was created—impacting the production and movement of automotive, electronic, pharmaceutical, medical equipment and supplies, and consumer goods. While the IFC is unable to put an exact dollar amount on the losses as a result of port shutdowns, it is predicted that the economic recession will produce a second demand shock in the various industries that have been impacted. Companies of a smaller scale simply do not have the flexibility nor the resources to afford a backup plan. Companies of a larger scale, such as DHL, have declared their contracts *force majeure* because of unforeseeable circumstances that prevent someone from fulfilling a contract—essentially deeming all existing contracts null and void. The impact of this declaration has had a spillover effect on ports, workers, landlords, and suppliers across the world.

These sentiments were reinforced by the United Nations Economic and Social Commission for Asia Pacific (UNESCAP). In their report, UNESCAP translated these challenges to represent the repercussions in the Asia Pacific Region.⁵ For many of the smaller Pacific Island nations, one ship a week may be all that services the population—limiting the amount of food and supplies that are available for the local population. Not only is the ability to survive jeopardized but exports of raw material and agriculture are discontinued, cutting off economic activity for these small populations.

Both the IFC and UNESCAP agree that a plan is needed to avoid the same economic devastation in the next pandemic. Lessons from this disaster serve as a guidebook for the future. These recommendations include an increased hybrid air and sea cargo capability, restructuring of the global supply chain to be further spread out, and expansion of digital services within the shipping industry. Guam has recently updated its decades-old law requiring a physical manifest of each cargo ship – the first step to modernizing its procedures at the port.

As stated in the Guam Business Opportunities Report, Guam offers attractive business opportunities for private sector firms from various industries.⁶ The island benefits from a duty-free exemption for goods entering the continental U.S. Additionally, Guam laws already allow for tax rebates and exemptions for investors who choose to invest in Guam. With these tax benefits, as well as the protection of the U.S. Military and the political stability that it brings with it, Guam has a chance at tapping into this new industry. Furthermore, Guam is home to the largest deep-water port in the Asia Pacific, which is ranked 55th in the world for its military and economic importance and handles, on average, about two million tons of cargo a year. “*Port Strong*” is more than a motto for the Port Authority of Guam—it is a testament to the capabilities of the *CHamoru* people.

Guam can take advantage of its geographical location to serve as a technology hub to return to a state of pre-COVID prosperity. With nearly every industry shifting its services online, this has created congestion in the existing technological infrastructure. When a consumer accesses data virtually, such requests travel in submerged submarine fiber optic cables to the respective servers where information is stored. With a global demand to access information on-demand, the island’s

⁵ United Nations ESCAP. (2020). Transport and trade connectivity in the age of pandemics UN solutions for contactless, seamless and collaborative transport and trade. *COVID-19 AND ITS IMPACT ON SHIPPING AND PORT SECTOR IN ASIA AND THE PACIFIC*.

⁶ Kulik, N. & Maruska, K. (2007). Guam Business Opportunities Report. *Prepared for the United States Department of the Interior Office of Insular Affairs*.



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location as a bridge between the east and the west makes Guam a favorable candidate as a global tech hub. Creating a technology-hub in the Guam and Mariana Islands archipelago will render lucrative employment for our people.

Conclusion:

Transshipment provides a significant improvement for the people of Guam and its economy. Guam's geographical and political-strategic location within the Asia Pacific represents a vital component to not only U.S. military logistics and operations but also an active role in serving as a manufacturing hub in the Asian market. While the challenges caused by the pandemic have created a need to establish Guam as a strategic hub for shipping for the area, the island is positioned for export-import businesses to capitalize on the benefits and import duties for U.S.-flag jurisdictions. The cost of living on Guam would be lowered as Guam acts as an intermediary location for the shipment of goods while at the same time improving the livelihoods and economic prosperity of the entire region.



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Appendix A: Grants

May 24-28

- \$3,895,200, matched by \$973,800 in local investment, to the City of Marinette, Marinette/Marinette County, Wisconsin, to support the City of Marinette with reconstructing a central street system near the City's shipyard and developing additional nearby city-owned industrial property for new and expanding businesses in Marinette County, Wisconsin. The project will establish a cutting-edge approach to meet the expected surge in the region's workforce and freight traffic by building a temporary infrastructure and testing support systems to ensure smooth operations at the shipyard. Once completed, the project will assist the region with recovery efforts from the COVID-19 pandemic, create and retain jobs, spur private investment, and advance economic resiliency throughout the region. The grantee estimates that this investment will help create 420 jobs, save 1,760 jobs, and leverage \$24,000,000 in private investment.

May 17-21

- 478,000, matched by \$119,563 in local investment, to the Columbiana County Port Authority, Lisbon/Columbiana County, Ohio, to support the Columbiana County Port Authority with launching its Economic Recovery Specialist Program. The region's economy was devastated by the COVID-19 pandemic, resulting in waves of layoffs and dislocated workers throughout Columbiana County. As a result, local leaders and the Authority determined that dedicated economic recovery support staff are necessary for the region's recovery from the pandemic. The recovery coordinators will conduct business retention efforts to ensure local businesses have the resources necessary to recover and will analyze workforce development priorities, facilitate Opportunity Zone awareness among the local business community, and cultivate a supportive entrepreneurship infrastructure throughout the County

April 26-30

- \$3,000,000, matched by \$815,653 in local investment, to the Port of Port Arthur Navigation District, Port Arthur/, Texas, to support construction of a new general-purpose cargo handling, staging, and transport area at the Port of Port Arthur Berth 5. The project addresses sensitive supply chain movement of materials such as healthcare use materials and human relief, military and energy cargo supplies. Movement of these products have been impacted by the COVID-19 pandemic and this project will directly address the recovery and resiliency of the supply chain, which will help the port remain globally competitive and enhance the capability for U.S. exports. Once completed, the project will spur job creation, attract private investment, and advance economic resiliency throughout the region. The grantee estimates that this investment will help create 220 jobs, save 55 jobs, and leverage \$44,000,000 in private investment.
- \$2,580,600, matched by \$1,720,400 in local investment, to the Wood County Port Authority, Rossford/Wood County, Ohio, to support the Wood County Port Authority's infrastructure capacity enhancement project to increase regional business attraction, retention, and expansion in Wood County, Ohio. The project will increase the capacity of connector roads, which will help trucks and other users efficiently reach critical express routes, and pave the way for enhanced logistics activity, an important local industry cluster and critical asset that increases home delivery services. Once completed, the project will assist the region with recovery efforts from the COVID-19 pandemic, create and retain jobs, attract private investment, and advance economic resiliency throughout the



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region. The grantee estimates that this investment will help create 1,003 jobs, save 64 jobs, and leverage \$205,000,000 in private investment.

- \$2,000,000, matched by \$500,000 in local investment, to the City of Atmore, Atmore/Escambia County, Alabama, to fund rail infrastructure improvements at the existing CSX mainline to serve a new peanut processing plant facility that will be located in the City of Atmore, Alabama. The project will support the Port of Mobile and the Alabama State Docks by facilitating the movement of more than 2,500 containers of processed peanuts through the port for export annually, which supports the advancement of the manufacturing industry within the region. Once completed, the project will create jobs, attract private investment, and strengthen the regional economy. The grantee estimates that this investment will help create 150 jobs and leverage \$80,000,000 in private investment.
- \$1,994,425, matched by \$1,500,000 in local investment, to the City of Eufaula Water Works and Sewer Board/City of Eufaula, Eufaula/Barbour County, Alabama, to fund infrastructure improvements needed to provide sanitary sewer service for a new facility in Eufaula, Alabama. The project will benefit the Medical Industrial of Americas (MI Americas), a PPE manufacturing company, in meeting the PPE shortage that exists worldwide. The site has a private rail spur for bulk freight and will allow MI Americas to ship to major ports, which will lay the groundwork for economic revitalization in the region. Once completed, the improvements will lead to the creation of jobs and support business development throughout the region. The grantee estimates that this investment will help create 250 jobs and leverage \$3,000,000 in private investment.

April 12-16

- \$1,350,000 in two Public Works projects, matched by \$1,996,839 in local investments, as follows: \$1,000,000, matched by \$1,646,839 in local investment, to the County of Monona, Onawa/Monona County, Iowa, to support the County of Monona with addressing the local and regional need for increased local access to a barge port terminal by providing resilient critical infrastructure leading up to the terminal in Monona County, Iowa. The project will allow farmers and agri-businesses to have better access to goods transportation and markets, provide necessary infrastructure for future businesses who can locate near the port facility, and support local and job creation opportunities. Once completed, the project will assist the region with recovery efforts from the COVID-19 pandemic, create and retain jobs, attract private investment, and advance economic resiliency throughout the region. The grantee estimates that this investment will help create 30 jobs and leverage \$11,500,000 in private investment.

April 5-9

- \$749,472, matched by \$355,729 in local investment, to the Port of Ridgefield, Ridgefield/Clark County, Washington, to fund the IT3 SPRINT - Innovation & Technology Based Recovery for Entrepreneurs program, to assist entrepreneurs with innovation and the use of advanced technology to drive competitive advantage in their business, recover from the economic impacts of the COVID-19 pandemic and build greater resiliency. IT3 SPRINT allows entrepreneurs to explore potential markets, products, services, business models and partnerships.



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Feb 22-26

- 80,000, matched by \$20,000 in local investment, to the Pee Dee Electric Cooperative, Inc., Darlington/Darlington County, South Carolina, to support the development of a feasibility study to determine the market demand for refrigerated storage and related sectors with specific attention to the newly operating Inland Port Dillon in Darlington, South Carolina. The results of the study will enable Pee Dee Electric Cooperative, Inc. to adequately plan for the size, location, and number of facilities needed to meet current and future demands of the region. Once completed, this project supports recovery and resiliency by improving the reliability and safety of the food service supply chain, which will help the region with recovery efforts from the COVID-19 pandemic and help diversify the local economy.

Feb 15-19

- \$4,511,548, matched by \$1,127,887 in local investment, to the Perry County Port Authority, Tell City/Perry County, Indiana, to fund the Perry County Port Authority's Bridge and Rail Added Capacity Enhancement (BRACE) Project to make railway infrastructure improvements needed to support the growth of manufacturing and other businesses in three local industrial parks. The project includes replacing two timber trestle bridges and rail approaches on the Hoosier Southern Railroad located at Milepost 8.1, over the Anderson River, and at Milepost 11.7, over the East Fork of Crooked Creek in Tell City, Indiana. Once completed, the two new bridges will provide additional reliability, reduced maintenance costs, and upgraded capacity to handle heavier freight, which will provide the region with another resource to strengthen its logistics cluster and diversify into other related clusters to become more resilient in response to disasters like the flooding that occurred in 2018 and 2019 and the ongoing COVID-19 pandemic. The grantee estimates that this investment will help create 25 jobs, save 19 jobs, and leverage \$1,500,000 in private investment.
- \$4,300,000, matched by \$619,000 in local investment, to Lamar State College-Port Arthur, Port Arthur/Jefferson County, Texas, to support Lamar State College-Port Arthur with creating a new Commercial Driving Academy - Examination Center. The new center will include larger covered testing areas, a new classroom facility, and an examiner's center. Once completed, the project will support industrial expansion and investment in the area, which will help create sustainable jobs and boost workforce development throughout the region. The grantee estimates that this investment will help create 1,800 jobs and leverage \$71,000,000 in private investment.
- \$2,400,000, matched by \$600,000 in local investment, to the Toledo-Lucas County Port Authority, Toledo/Lucas County, Ohio, to capitalize the new Toledo-Lucas County Port Authority EDA revolving loan fund, which will provide a critical source of capital for businesses located in the Toledo region. As the COVID-19 pandemic impacted businesses' access to capital, many employers were required to reduce their workforce, causing job losses across the region. This EDA-funded revolving loan fund will provide additional resources to Toledo region businesses struggling to retain their employees, continue operations, and succeed long-term. The grantee estimates that its investment will help create 50 jobs, save 20 jobs, and leverage \$250,000 in private investment.

February 1-5

- \$80,000, matched by \$20,000 in local investment, to Dillon County, Dillon/Dillon County, South Carolina, to support Dillon County with conducting the Inland Port Dillon Traffic Study to help address current and future roadway and rail needs in the immediate 6-mile radius of Inland Port Dillon in South Carolina. Once completed, the study will help identify new construction, capacity



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or maintenance improvements that will need to be made over the next 20 years to maintain maximum access to the port and surrounding industrial, commercial and residential parcels, which will help attract a diverse range of businesses to the region, diversifying the workforce and overall economy.

- \$3,000,000, matched by \$3,021,500 in local investment, to the Victoria County Navigation District, Victoria/Victoria County, Texas, to support the Victoria County Navigation District (Port of Victoria) which encompasses all of Victoria County, Texas, with constructing a new 1.9-mile rail loop and a 2,000-foot ladder track (spur) that will connect to existing rail infrastructure. The project will help the region's railroad, manufacturing, warehousing and terminal operations recover from the economic effects of COVID-19 by providing additional capacity for rail car storage and handling as they are critical to the supply chain. In addition, the expansion will allow for long-term competitiveness amid natural disasters and economic shocks, support the advancement of the manufacturing industry within the region, spur economic growth in a designated Opportunity Zone and advance economic resiliency throughout the region. The grantee estimates that this investment will help create 83 jobs, save 300 jobs, and leverage \$45,900,000 in private investment.



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Appendix B:

Membership (*pursuant to P.L. 36-23*)

- A. **Guam Economic Development Authority:** Administrator Melanie Mendiola (CEO), First Lady Joanne Camacho (Deputy Administrator)
- B. **Port Authority of Guam:** General Manager Rory Respicio
- C. **Guam International Airport Authority:** Mr. Fred Tupaz
- D. **Guam Customs and Quarantine:** Customs Officer III Johnrick Mendiola
- E. **Department of Land Management:** Director Joe Borja
- F. **Governor:** Governor Lou Leon Guerrero/Ed Camacho
- G. **Speaker:** Vice Speaker Tina Muña Barnes
- H. **Guam Contractors Association:** Mr. Camilo Lorenzo
- I. **Bureau of Statistics and Plans:** Director Tyrone Taitano
- J. **University of Guam:** Dr. James Ji, Jr.
- K. **Department of Agriculture:** Deputy Director Adrian Cruz

Ex-officio (Non-voting)

- L. **Guam Chamber of Commerce:** Ms. Catherine Castro
- M. **Guam Women's Chamber:** Ms. Bernie Valencia
- N. **Chinese Chamber of Guam:** Mr. Albert Wu
- O. **Filipino Community of Guam:** Former Senator Dennis Rodriguez
- P. **Korean Chamber of Guam:** Mr. Charlie Hermosa

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