Final

* Corrected

Statement of the Coastwise Coalition
by
Peter Drakos, President of Coastal Connect LLC

Committee on Transportation and Infrastructure
United States House of Representatives
Washington, D.C.

Investing in Infrastructure: The Road to Recovery
A Marine Highways Perspective

October 29, 2008

Mr. Chairman and Members of the Committee, I am Peter Drakos, President of Coastal Connect LLC, and a member of the Coastwise Coalition. I am pleased to be here to offer a domestic maritime perspective on behalf of the Coastwise Coalition on actions the Congress can take to improve the economy and maritime transportation. I will address several key points today:

- *The Coalition's strong support for prompt enactment of an exemption from the Harbor Maintenance Tax for carriage of domestic and Great Lakes non-bulk cargo, an issue addressed by bills sponsored by some members of this Committee. We hope that this sorely needed relief could be included in any "recovery" or "stimulus" legislation enacted this fall.*
- *The importance of a strong and steadily funded Title XI program.*
- *The value of integrating some domestic marine transportation activities and support for those activities with surface transportation policy and funding.*

Participants in the Coalition include a wide range of public and private sector organizations and individuals. Most are in the marine transportation sector and include ports, vessel operators and other transportation providers, maritime labor unions, analysts, and others in the maritime industry and workforce.

The Coalition is grateful for this opportunity to put the further development of marine highways before the Committee. This is one area of infrastructure investment that can stimulate economic activity and job creation. Even more importantly, it can help in the development of energy efficient, environmentally friendly and sustainable new capacity for the national transportation system and the economy it supports. The Committee is right to move quickly to address the nation's deteriorating economic condition by calling this hearing. Furthermore, I am pleased to note that Chairman Oberstar and Ranking Member Mica have shown great interest in how marine surface transportation can play a greater role providing overall system capacity for the nation.

The Coastwise Coalition has focused its recent work on the urgent need for an exemption from the Harbor Maintenance Tax (HMT) and other exclusively maritime matters. However, the Coalition also is in the process of discussing and reviewing a range of policy recommendations in anticipation of the coming work by Congress to address surface transportation programs and policy. In advance of our coming to a conclusion on a formal Coalition agenda in that regard I have been asked to bring a few of those ideas to your attention in the hope that it will stimulate some thinking in this area on your part as well.

The Coalition's purpose is to promote the use of waterborne transportation as a safe, economical, energy efficient and environmentally beneficial means to meet a growing need for reliable transportation options

Peter Drakos, President
Coastal Connect LLC
(203) 569-7679

Clearwater House - 6th Floor
2187 Atlantic Street
Stamford, CT 06902-6880

and capacity expansion. Congestion on our land routes is a fact of life in many major corridors and most metropolitan areas of the country. Relieving the increasing demands on the major highways and the rail system by providing new routings for cargo is what we can help accomplish through greater use of the marine transportation system (MTS).

Increasing domestic coastwise and inland shipping services would provide cargo owners, transportation intermediaries, trucks, and rail carriers a safe, reliable, and cost competitive transportation option. In the process, our transportation system can improve in terms of energy efficiency, environmental impact, and reduced stress on corridor communities.

I am appearing before you today as an example of new transportation capacity and what can be achieved in the way of transportation improvements and near term and sustained economic activity. The Coastal Connect operation is only one example of what is and can be offered on our marine highways. For purposes of this statement I will not address the important and already significant domestic shipping activities that serve the bulk commodities market, a traditional and large user of America's waterways.

With the signing of the Energy Independence and Security Act in December 2007, short sea shipping in the United States, also known as America's Marine Highways, was recognized and embraced as an important part of our country's surface transportation network. Thanks to the leadership of the Committee and the support of Congress we now have law that encourages the development of domestic marine transportation in the context of the surface transportation system. I would also like to acknowledge the energetic work of Maritime Administrator Sean Connaughton in advancing marine highway development to metropolitan planning organizations, shippers, the financial community and other sectors.

Marine Highways: Today and Tomorrow

Marine highways are water routes of our surface transportation system. Today container vessels and trailer, truck and rail ferry services are operating on the water. U.S. companies like Crowley, Tote, Columbia Coastal Transport, Osprey Line, and Horizon Lines operate on non-contiguous and contiguous routes. In the coming years these companies and new entities like Coastal Connect will be called on to carry more freight and serve new markets. More immediately, Horizon Lines executives have publicly expressed, including to this Committee, that company's strong interest in developing new domestic short sea services. The company has consistently noted, however, that it sees the application of the Harbor Maintenance Tax to contiguous domestic non-bulk cargo movement as a major obstacle to making a success of such service – a view I share. Other companies are investing in vessel designs, equipment acquisition, and marketing to prepare to serve new markets. Coastal Connect, my company, is one of those.

I would like to give you a few examples of what is being developed around the country. All are private sector initiatives that would provide public benefits. All would have an improved chance of sustaining their operations over the long term if Congress adopted a Harbor Maintenance Tax exemption and targeted incentives.

Coastal Connect is well into the design of an environmentally enhanced class of ships that will address the challenges facing the transportation industry today. The ships will be a roll on-roll off design, principally carrying 53' domestic trailers. The initial service will be between New Jersey and Rhode Island, and thereby mitigate the chronic roadway congestion along the New York/Connecticut I-95 Corridor. The ships will operate at speeds of up to 20 knots to provide same-day delivery service, and they will be the first of a class of compact Ro-Ro's to be built in the United States to run on compressed

natural gas (CNG), the cleanest burning fuel that will reduce air pollution and greenhouse gas emissions.

By the end of this year we expect to have ship design documents that will allow us to solicit bids from U.S. shipyards for the construction of four (4) ships, with an option to build four (4) more. With the recent downturn in the economy, the Coastal Connect construction contract will mean hundreds of shipyard and related jobs in support of our nation's vital shipbuilding industrial base, and with delivery of our ships we will expand opportunities for U.S. seafarers and portside workers.

To finance the construction of the ships we will need Title XI financing, and thus it is our request that Congress continue to appropriate the necessary funds to stimulate ship construction in the United States through the Title XI Program. Upon approval of our Title XI application, we would expect to commence ship construction within three (3) months. In addition, in view of the substantial costs associated with the technologically advanced CNG fuel configuration, we will seek grant money from appropriate agencies.

California is as transportation-challenged as any place in the nation. One of the areas where domestic marine surface transportation alternatives have been actively discussed is in the northern part of the State. Eco Transport is a company that is initiating environmentally beneficial goods movement service there. Their service will entail transporting containerized cargo by tug and barge on the San Joaquin River between the Ports of Oakland, Stockton and Sacramento. It will move import containers to the interior and return to the Oakland gateway to export California agriculture and other goods overseas. Each barge will carry 350 containers. At full ramp up, Eco Transport will offer the service seven days a week or 250,000 containers per year.

In addition to the transport services, Eco Transport plans to offer container storage, equipment interchange, and warehousing services in Stockton. That will make for a major improvement from the current model of transporting goods from Oakland to the Central Valley. Currently, 75 percent of all movement occurs via truck, which creates major congestion along key northern California corridors, contributes to a severe air quality issue, and creates unnecessary safety risks. At full operation Eco Transport service will remove over one million truck trips from the road each year and greatly reduce emissions. Indeed the Eco-Transport project has partnered with the applicable California Air Quality Districts and tugboat emission specifications have gone through the Carl Moyer (low emissions) process through the Bay Area Air Quality Management District. Both the San Joaquin Valley Air District, Bay Area Air District Management District and the California Air Resources Board agree the results of the partnership study, that the Eco-Transport project will reduce emissions greatly compared to the existing trucking model.

Eco Transport expects to be able to move to the acquisition of its equipment as soon as the second quarter of 2009. They will spend nearly $50 million on vessel and port infrastructure and equipment to develop its service to achieve operating efficiency and deliver environmental benefits. $29.5 million of that would be for one tugboat and three container barges.

Similar to the Bay Area, the unique geography of the Great Lakes presents opportunities to relieve highway and rail congestion through the development of marine highway services between major cities in the upper Midwest. The U.S.-Canadian binational trade relationship is the largest in the world. More than half of that total occurs in the Great Lakes region. Post 9/11 security enhancements have slowed the flow of commerce at U.S.-Canadian border crossings creating additional market pressure for alternative freight transportation services. In response to these market forces, three new freight ferry services are under development in the region. These services will link Cleveland, Ohio with Port Stanley, Ontario; Erie, Pennsylvania with Nanticoke, Ontario; and Oswego, New York with Hamilton, Ontario.

The Cleveland service would employ two Ro-Ro vessels and is expected to accommodate 250,000 passengers, 42,000 vehicles, and 40,000 trucks each year. The Erie service would also employ a Ro-Ro vessel design with a per-voyage capacity of 160 trucks. The Oswego service would utilize a tug-barge configuration and accommodate up to 110 trucks per voyage. Although still in the planning stages, each of these new services are expected to enhance the flow of commerce, remove trucks from already congested highways, ease border congestion, and reduce emissions.

In the Gulf region, SeaBridge Freight, Inc. will initiate its first short sea operations in November 2008. That company's container-on-barge business will provide scheduled service between Port Manatee, Florida and the Port of Brownsville, Texas. The operation will provide low-cost alternative capacity to third party logistics providers and intermodal motor carriers. Their service will be in addition to that planned between the Ports of Victoria and Houston, which signed a MOU to initiate a service.

Action Needed to Improve the Economy and Maritime Transportation

There are three particular areas where the Federal government can stimulate new marine surface transportation capacity and the jobs to go with it:

- eliminating disincentives to the use of maritime transportation, particularly the application of the HMT to domestic and Great Lakes non-bulk moves;
- vessel construction and refitting; and
- terminal construction and modification.

All of these steps, in one way or another, would encourage those who control the freight to consider the efficient maritime options as part of an integrated multi-modal system. Let me elaborate.

End the Harbor Maintenance Tax Disincentive – NOW

If there is one thing that Congress can do, and which the Coalition consistently has proposed, it is to remove promptly a disincentive to the use of the marine highway --- by exempting from the Harbor Maintenance Tax carriage of non-bulk domestic and Great Lakes cargo. This is cargo currently moving largely on congested and aging highways that can, instead move on water routes. There are some exemptions to this tax already, notably when the vessel movement in question pays the inland waterways fuel tax, for passenger ferries, and for certain shipping that serves Hawaii, Alaska and U.S. possessions. However, absent applicability of exemptions, or an unusually strong special niche market, the HMT is a considerable barrier to moving these non-bulk cargoes on water in domestic or Great Lakes service, as we explain.

We appreciate the attention that this issue has been given by members of this Committee. Various bills were introduced earlier in this Congress. Two versions that would apply an exemption on a national basis—including US/Canada trade on the Great Lakes—are the Short Sea Shipping Act of 2007 (H.R. 1499) and a comparable Senate bill (S. 3199). Before going further let me say that the Coalition deeply appreciates the leadership provided by Chairman Cummings, the sponsor of H.R. 1499, on this particular issue. We also appreciate the letter recently written by Rep. Mica, Rep. LaTourette and others to advance such legislation. And we know that you have been supportive of this effort, Mr. Chairman. It is appreciated.

The Harbor Maintenance Tax is an ad valorem charge—0.125 percent—on international cargo entering this country, on domestic cargo moving between U.S. ports, and cruise passenger tickets. The tax, which is paid by the cargo owner, discourages the use of marine transportation by intermodal cargo in several ways.

First, at a time when all business is extremely cost conscious, the charge itself can be a barrier. It is a charge not imposed on land transportation moves. Second, there is an administrative barrier. A good amount of the freight moving on the congested interstates and major corridors is in consolidated shipments such as you would find in a UPS trailer. Use of the marine highway alternative would obligate the owners of goods with a value over $1,000 in the truck to file separately the appropriate HMT payment with Customs and Border Protection, the collecting agency. That, of course, assumes that the shipper knows that the truck opted for the water route. Similarly, if an international containership operator wanted to consider routing import cargo to its destination via a coastal shuttle, new charges and customer paperwork would apply that does not apply if land carriers were used.

Simply, when you are trying to provide customers with a solution to an existing problem, it doesn't help to say that extra charges and paperwork are a part of the new approach. So, the HMT is a serious barrier to success for vessel operators trying to establish new services and attract non-traditional customers of marine transportation.

We will add, however, that because of these barriers, it is our belief that the Treasury collects de minimis revenue from the HMT in the context of non-bulk domestic and Great Lakes cargo. Enacting the exemption will provide real benefits with little if any cost to the Treasury.

Let me illustrate this with an example. The Detroit-Windsor Truck Ferry operates between the U.S. and Ontario and primarily serves trucking carrying hazardous cargo. It provides an essential alternative to the heavily traveled Ambassador Bridge and long distance alternatives. The operator of this barge service testified at the February 15, 2007, hearing by the Coast Guard and Maritime Transportation Subcommittee that hazmat trucks use the service in the direction of Canada but that trucks bearing cargo and originating in Canada do not use the service expressly because of the Harbor Maintenance Tax. Thus, the most desirable route for hazardous cargo -- away from the crowded international bridge and a significantly shorter distance than other route alternatives -- is discouraged by current law.

So, what we have is the opportunity for innovative, new service that would:

- ease landside congestion;
- ease the need to construct new, expensive landside capacity;
- utilize an energy efficient, less polluting mode;
- create U.S. citizen maritime jobs, strengthening the active base of U.S.-flag vessels and mariners for national defense; and
- involve little or no cost to the Treasury.

The merits are compelling, short and long term.

We strongly urge the Committee to do what it can to enlist Leadership and others in the effort to enact now this legislative solution to exempt non-bulk cargo (including cargo carried on rolling stock such as trucks, trailers and rail cars, as well as cargo in containers or in the form of vehicles). For further reference on this issue you will find appended to this statement a recent letter to Chairman Rangel of the Ways and Means Committee and signed by various participants of the Coastwise Coalition.

Vessel Infrastructure

This Committee has supported vessel financing measures and we greatly appreciate your continuing support. Opening the Capital Construction Fund to coastwise shipping vessels in Public Law 110-140 was an important decision by Congress in 2007 and it likely will stimulate shipyard work and new marine highway capacity in the next year and for years after.

The Title XI program is the other existing mechanism for financing investments in vessel infrastructure. It is an essentially sound and invaluable program. We have heard suggestions for possible refinements to make the program work more efficiently and to make the process "less daunting," as suggested by Chuck Raymond, Chairman and CEO of Horizon Lines. To borrow from testimony Mr. Raymond gave in March 2007, to the Subcommittee on Seapower and Expeditionary Forces (chaired by Congressman Taylor), a strong Title XI program will strengthen the economy and national defense "by strengthening the circumstances of ship operators, shipyards, maritime labor, and shipyard workers. " He went on,

> New vessel construction means more modern U.S.-flag vessels and U.S. shipyards – both better able to face future challenges and assist DOD. To have these positive impacts, the program needs to be consistently funded and the terms and conditions of its use should be made less daunting to its private sector customers. It is not enough for the program to receive sporadic drips of funding.

In recent years it has not received funding, period. The current state of the Title XI program makes it difficult for shipyards or vessel operators like Horizon to plan commercial vessel construction programs.

Title XI, when funded, leverages private investment and generates economic activity. To offer a general rule of thumb, each dollar of Title XI funding supports 20 times as much in construction. So, $60 million in Title XI loan guarantee funding leverages $1.2 billion in guarantees for ship construction. As for the ability of the program to stimulate jobs, a recent order for 13 new tugboats was expected to stimulate over 200 jobs and inject $120 million into the Seattle economy. Recent appropriations actions have begun to fund title XI but it is important that this funding be provided on a regular and substantial basis if carriers and shipyards are to be able to make effective plans.

I have a last illustration as to how important Title XI financing has been to the U.S. flag merchant fleet over the years. Data available on the Colton Company website indicates that since World War II the owners of 41 of the 43 container and 29 of the 30 Ro-Ro vessels built in United States shipyards for private sector purchasers have relied upon Title XI financing. It is that essential.

Port Infrastructure and Other Issues

If you scanned the waterfront of the more than 85 public ports and many more private terminal locations around the country you would find underutilized capacity in many. However, it cannot be assumed that those ports and facilities have adequate infrastructure in place to serve as platforms for domestic intermodal service on the marine highways. International terminals are not well suited for domestic freight handling given the physical plant and Federal presence designed specifically for import activities. Otherwise, existing terminal configurations, equipment, and available acreage may not be sufficient or useable depending on the type and volume of cargo to be handled and the type of vessel in service. A marine highway terminal may require bulkheads strengthened and new cranes, gates or ramps. It is well documented that the inland waterway system infrastructure, the locks in particular, are outmoded and in urgent need of repair. Depending on the location Federal channels and locally managed access channels will require maintenance dredging. (However, it is generally thought that most domestic marine highway operations will require few channel improvements inasmuch as most marine highway services employ vessels of lesser drafts than of the larger ocean and bulk carriers.)

Vessels and port facilities are the infrastructure elements for marine highways that are akin to the lanes, ramps, rails, and support areas that are essential to the land modes. Indeed it is believed that the marine highway infrastructure can deliver heavy volumes of freight for a public investment that is less costly and offers public benefits that compares favorably to building comparable capacity on the interstate system.

What are ways that Congress might stimulate investments in marine highway infrastructure?

In addition to the HMT relief and title XI funding already discussed, and increasing funding for the general maintenance and improvement needs of the Federal system of navigation channels, the Committee could consider a range of approaches that the Coalition is discussing and reviewing. One that has been mentioned is establishment of a freight ferry program. It could be modeled in part on the Ferry Boat Discretionary Program that was established in ISTEA (1991) and amended in succeeding surface transportation reauthorization measures. That program allocates grants to support the construction of passenger ferries, landings and related facilities. A freight ferry program could be established to advance the development of marine highway terminal facilities and vessels that will offer service that connects elements of the interstate highway systems. We would not want that approach to stifle the development of private sector marine highway operations. Rather it could be a way to invest in infrastructure that would facilitate the development of new service, which is to say new capacity, for the surface transportation system.

Last year the Committee took an important step that culminated in the enactment of the Short Sea Transportation provisions. This month the Department of Transportation issued an interim final rule to implement those provisions for the designation of corridors and projects under the American Marine Highways Program (AMH). The Committee could take a next step in support of the program by encouraging the use of existing CMAQ funding—perhaps through a set-aside—for projects designated under the American Marine Highways Program. It would be a way to maximize public benefit and support projects vetted through the AMH program.

Some members of the Coalition are looking at how Congress might incentivize marine highway development and use. Incentives would be warranted because of the public benefits that would be achieved with the shift of some portion of the growing volume of vehicles on our crowded interstate and metropolitan routes. Those benefits would include reduced congestion, emissions reductions, energy conserved, and reduced wear on infrastructure bearing the trucks and trains. See a recent report issued by the Fletcher School of Law and Diplomacy on the economic, environmental and national security benefits of coastwise shipping entitled: "Americas Deep Blue Highway" (http://www.igms.org). Tax incentives could be offered to the shippers and truckers, for example, on the basis of specific benefits or miles traveled on marine highways.

Another approach might be to modify TIFIA (Transportation Infrastructure Finance and Innovation Act) to allow financing in smaller amounts, perhaps $5 million or less, to support infrastructure development for designated AMH projects.

Reforms to the transportation planning process could also help stimulate development and expansion of marine highway services. Depending on geography, there will be instances throughout the nation where the best solution to highway congestion might be movement of freight by vessel. Given the considerable cost of road and bridge construction, Federal support for marine highway investments, where it makes sense, may be the most cost effective option with the least environmental impacts. Such cost effective options could make it possible to accomplish more with available infrastructure dollars. The current transportation planning process makes consideration of these alternatives difficult because most transportation planning agencies are generally unfamiliar with maritime services. The Federal government should address this disconnect because marine surface transportation, and the services of the private sector, will be in increasing demand to enhance the operating capacity of our country's transportation system.

Conclusion

The Committee's leaders in both parties have demonstrated an appreciation for giving greater attention to intermodal transportation and taking a broader, systemic view of what our nation's transportation system should be. Marine surface transportation development should be an integral part of that. It presents an opportunity to make more efficient use of fuel resources and improve on total emissions resulting from the transport of goods and persons. It would create new jobs in the nation's ports and enable the U.S. maritime sector to develop new capabilities and apply improved technology to a mode of transportation that continues to serve this country well.

We have outlined today the need to promptly enact an HMT exemption, noted the benefits of title XI funding, and discussed other possible actions that would help bring these benefits into reality. We urge your support for these steps. Thank you for allowing the Coastwise Coalition and me to participate in this timely hearing.

****

Attachment