TESTIMONY OF

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REPRESENTING A NATIONAL COALITION CALLING FOR HARBOR MAINTENANCE TAX REFORM

Before the Water Resources and Environment Subcommittee of the
House Transportation and Infrastructure Committee

PROPOSALS FOR A WATER DEVELOPMENT ACT OF 2008

Rayburn House Office Building – Room 2167
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Introduction/ Summary of Testimony

My name is Jim Weakley. I am President of Lake Carriers' Association, an organization of U.S.-Flag vessel operators on the Great Lakes, and an officer of the Great Lakes Maritime Task Force, a coalition of ship operators, labor, shipyards, ports and others on the Great Lakes. Today, however, I am here testifying on behalf of a national coalition ("the Coalition") that is very concerned about the impacts on Federal ports and harbors that cannot be fully maintained with existing U.S. Army Corps of Engineers funding levels and advocates an initiative to seek full access to the annual revenues generated by the Harbor Maintenance Trust Fund (HMTF) ad valorem tax for the purpose of operations and maintenance dredging in the United States. In 2007, the HMTF taxes collected from shippers for the purpose of funding dredging projects in our nation amounted to more than $1.4 billion, yet only $751 million of dredging and related maintenance costs was reimbursed from the fund, while ports and harbors were not able to be dredged to their authorized project dimensions.

The Importance of Dredging

Our ports and harbors are gateways to domestic and international trade, connecting the United States to the world. Because of the Nation's port system, food grown by Iowa farmers reaches tables in Japan and Russia. Manufacturers in Texas can sell goods and services profitably to foreign countries and supply food for peace. Appalachian and Midwest coal moves through coastal ports to power plants domestically and around the world, providing the fuel to heat and light homes, businesses, and cities.

Whether products are arriving at our shores or departing for foreign sale, trade relies on an efficiently operating U.S. port system. Without exception, ports are critical to every State in the Nation. On average, each of our 50 States relies on 13 to 15 ports to handle its imports and exports, which add up to more than $5.5 billion worth of goods moving in and out of U.S. ports every day. Responsible for moving more than 99 percent of the country's overseas cargo, U.S. ports and waterways handle more than 2.5 billion tons of domestic and international trade annually, and that volume is projected to double within the next 15 years — particularly after the expansion of the Panama Canal. International trade is responsible for 25 percent of the U.S. Gross Domestic Product (GDP). Along with meeting the demands of international trade, ports are busy with a sustained surge in cruise travel. Cruises depart from 43 ports in North America with a positive economic impact in all 50 States, since over 79 percent of cruise industry expenditures are made with U.S. businesses, including airlines, travel agents, food and beverage, and ship maintenance and refurbishing. On the Great Lakes, enormous quantities of raw materials that move by vessel are used to power major cities, make steel, and build roads.

Equally, or more important is the National Defense support that our Nation's ports provide. The U.S. military depends on numerous ports that have agreements with the Federal Government to serve as bases of operation and to deploy troops and equipment during national emergencies. Today this role is more evident than ever and more important than ever, given the current climate of persistent threats around the globe coupled with the closure in recent years of U.S. military ports.

Port-related jobs are critical to augment our economy. Direct and indirect jobs generated by ports result in the employment of more than 8 million Americans who earned and spent $314.5 billion in 2006. Every $1 billion in exports alone creates an estimated 15, 000 new jobs. In Texas alone one in every four jobs is linked to trade.

America's deep-draft navigation system is at a crossroads, with a future that can be bright or bleak. Our waterways' ability to support the Nation's continuing growth in trade and in the defense of our Nation, hinges on much-needed Federal attention to unresolved funding needs that are derailing critical channel maintenance and deep-draft construction projects of the water highways to our ports. Because most ports do not have naturally deep harbors, they must be regularly dredged to allow ships to move safely through Federal navigation channels. Also, as modern vessels increase in size, navigation channel depths must increase accordingly, if we are to continue to be a player on the international marketplace. A recent U.S. Army Corps of Engineers study reports that almost 30 percent of the 95, 550 vessel calls at U.S. ports are constrained due to inadequate channel depths. Ladies and gentlemen, these are the things that cause port directors nightmares.

Without a channel dredged to its authorized depth, nothing else comes into play. Attracting new customers, dealing with labor issues, environmental concerns, and the public – all go away – because without a properly-dredged channel, business goes away. Public ports are at a critical state in

keeping their channels open for business. We are losing existing business and potential new business to ports outside of the United States — and once lost, it is rarely regained.

Dredging can literally make or break our industry, and a lack of dredging is an issue throughout the United States. In fact, it is not an overstatement to say that in many parts of the United States, we face a dredging crisis. On the Great Lakes, as Chairman James L. Oberstar of this Committee and Chairman David R. Obey of the Appropriations Committee well know, decades of inadequate funding for dredging have left a backlog of 18 million cubic yards of sediment. The U.S. Army Corps of Engineers estimates removing the backlog will cost more than $230 million on the Great Lakes alone. In some cases, ports on the Great Lakes have actually shutdown due to inadequate dredging. There are similar examples of dredging problems in ports and harbors on all coasts of our Nation.

In many cases, vessels must "load light" because of dredging shortfalls. The economic implications of light loading are enormous. On the Great Lakes, for example, vessels lose between 50 to 270 tons of cargo for each inch they must reduce their draft and, in some areas, the lost draft is measured in feet, not inches. Light loading because of inadequate dredging impacts everyone. A ship that is light-loaded reduces its efficiencies in the same way that a commercial airplane that is required to set aside seats with no passengers would quickly lose its efficiencies.

The Harbor Maintenance Trust Fund

The Harbor Maintenance Tax and the Harbor Maintenance Trust Fund were established in the Water Resources Development Act (WRDA) of 1986. The Trust Fund (HMTF) applies a 0.125 percent ad valorem tax on the value of commercial cargo loaded or unloaded on vessels using Federally-maintained channels. The tax is only assessed on imports and domestic cargo, as it was

ruled as an unconstitutional assessment on exports in a 1998 Supreme Court ruling. This Fund – that you, members of Congress – established, was authorized to be utilized to recover 100 percent of the U.S. Army Corps of Engineers eligible Operations and Maintenance (O&M) expenditures for commercial navigation, along with 100 percent of the O&M cost of the St. Lawrence Seaway, certain costs of NOAA, and the costs to Customs to collect the tax.

Fixing the Problem

Ladies and gentleman – would it surprise you to know that this utilization has not been honored? HMTF revenues exceed transfers for authorized activities by an increasing margin. Yet, our Federal channels are not being maintained at authorized depths. The Fund is being held hostage to paper balance the budget – interestingly, not one of its legal uses. In 2007, the HMTF began with a $3.3 billion surplus and collected an additional $1.4 billion – resulting in a $4.7 billion surplus, while only $751 million was utilized for maintenance dredging. That is incredible. I would ask that you consider this analogy offered by my colleague in a Gulf Coast port: "What would you say to a toll booth operator who took your money to use the toll road only to then tell you that the road was unusable?"

That is what is happening to shippers who pay this tax every day. We must solve this problem. We must draft legislation that mandates that the Fund be utilized for its intended purpose – the maintenance dredging of Federal ports and harbors. There are a number of ways to address this problem. As you know, other modes of transportation – surface transportation and aviation – have faced similar problems in the past decade. Although we are in the early stages of addressing this

problem, our Coalition believes Congress should consider an approach similar to that taken with the Highway Trust Fund in 1998 and with the Airport and Airway Trust Fund in 2000. In those cases, Congress legislatively enacted "firewalls" around the Trust Funds – essentially guaranteeing minimum levels of spending that could only be used to support eligible projects. Although there are some variations between the Highway, Aviation, and Harbor Maintenance Trust, the point of a firewall in each case is the same – ensuring that monies from a tax would be used for their intended purpose and not merely for deficit reduction.

Conclusion

Thank you, Madame Chairwoman, for your interest in this important issue. My message is simple – use the Harbor Maintenance Tax for its intended purpose to address our Nation's dredging crisis. It's time to put the "TRUST" back in this Trust Fund.